"TELECOMMUNICATIONS CHALLENGES FACING RURAL AMERICA IN THE 21ST CENTURY"

Telecommunications Task Force

Co-Chairs: The Honorable Gil Gutknecht
The Honorable John Peterson
The Honorable Bart Stupak
The Honorable Allen Boyd

Vice-Chairs:
The Honorable Tom Osborne
The Honorable Lincoln Davis

Also present:
The Honorable Earl Pomeroy
The Honorable Steve King

2:00 p.m.
November 17, 2004

1302 Longworth House Office Building
Washington, D.C.

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C O N T E N T S

P R O C E E D I N G S

MR. GUTKNECHT: If we could get everybody to take a seat, as some of you may know, my name is Gil Gutknecht and I represent southern Minnesota. This is Earl Pomeroy, who represents all of North Dakota. We will have other Members joining us as we go through the schedule here.

But as I started to mention, I'm also an auctioneer, and one of the things they teach you in auction college is to start on time, so we're going to try and start. There will be Members coming in and out. As is always the case when Congress is in town, meetings tend to be over-scheduled and we have two or three meetings at the same time.

Earl mentioned to me that he has got two other things going on, so he is going to stay as long as he can. We were able to block off all of the time, so I'm going to be here at least until--well, that clock is wrong. It is actually only 2 o'clock. We haven't gotten onto regular standard time.

Let me thank, first of all, Congressmen John Peterson and Alan Boyd, who are the Co-Chairs of the Congressional Rural Caucus, for asking us to have this

hearing. About six months ago we had a meeting of the rural caucus and we sort of polled all the Members, and we have over 100 Members of Congress who are involved in the Rural Caucus.

And we sort of polled the Members in terms of what are some of the issues that are really important to rural America. Surprisingly, one of the issues that went way up on the radar screen was telecommunications. We were asked if we would put together a special subcommittee, if you will, or caucus of our own, just to look into the issues and problems related to what is happening with telecommunications and technology and how both the States and the Federal Government are regulating it.

And, as a result, we decided that we would have at least one, and now it looks like we will have at least two, perhaps three meetings like this, where we will invite people in to talk about it. At the core of what we are really trying to do is get to the bottom of what are the problems; how are the Federal and State regulators responding to those problems in rural America; and then of course ultimately what we should do about that.

Now, it is my assumption that sometime during the 109th Congress we will pass another version of telecom legislation here in the Congress. The concern that we have from a rural America perspective is that the issues affecting small towns, rural communities, farms and ranches, do not get completely ignored in that discussion. So that's the principal motive we have today, but I think it will be instructive for Members and for staff to have folks coming in from around the country to talk about some of those problems, and hopefully then helping us to be better educated in how we should approach this.

There is a small company in Minnesota that is located in a town with one traffic light, one gas station, one grocery store. There is, as I say, one rural telephone company that is located there. There is a cable television company. There are four wireless companies and one satellite company.

Of all of those companies located in that one very small town, there is only one company that is regulated. That is the rural telephone company. And, as a result, the rural telephone company wanted to offer services beyond what he is currently offering, that was the company that was

denied. I think in some respects that sort of discusses some of the problems that we face.

Now, my staff has prepared a very long opening statement here. I'm going to cut it very short because you didn't come here to hear me. But in the end, it seems to me that we have a responsibility to rural America to make certain that they don't get left behind. As technology and as new products and new services become available, our principal mission is to make certain that the voices of rural America are heard as we begin to debate the next telecom bill.

With that, I would be more than happy to turn it over to my colleague from North Dakota, if he has any opening remarks. Earl?

MR. POMEROY: Thank you, Gil. I just want to introduce my Public Service Commissioner, Tony Clark. Tony is on the first panel. He knows a bit about telecom issues in rural America, because 95 percent of the territory he is responsible for overseeing has a density of less than two customers per square mile.

So when it comes to the rural telecom issues being addressed in this session, quite frankly we have great

anxiety as to how this might shake out. We think certainly since the last telecom bill, technology has driven a number of issues to the fore, issues that I think distinctly threaten rural America if we are not very careful.

And so, Gil, I appreciate you convening this meeting, getting this material before us, and with Commissioner Clark you are really hearing, I think, from the Nation's utilities regulators. He is vice chair of the group, of the National Association of Regulatory Commissioners Telecom Committee, and he is the chairman of the 14-State Quest Regional Oversight Committee. So he has spent, in addition to the unfair charging of rural railroad rates, which we work on when we have other hats on, he has emerged as an expert in this area as well.

I'm going to have to run to this organizational meeting. I'll be running right back, but I apologize for the in-and-out. Anyway, Commissioner Clark, thank you for coming out today.

MR. GUTKNECHT: Thank you, Congressman Pomeroy. What I think we will do is, I'm going to introduce the panelists, and we are going to try and hold your remarks if you can to about five minutes. Now, we understand, and this

is not a formal hearing, and even in the formal hearings here in Congress we don't do a very good job of holding people to five minutes.

I am honored to welcome our colleague from Nebraska, Coach Osborne, to the dias. Thank you for coming. Do you have any opening remarks?

MR. OSBORNE: No.

MR. GUTKNECHT: We are just about to start taking some testimony. I think with that I will go to Mr. Jeff Carlisle first, and ask if he would make his presentation. He is the Bureau Chief of the Wireline Competition Bureau of the Federal Communications Commission. Welcome.

MR. CARLISLE: Thank you very much. I brought along a PowerPoint presentation which is, I believe, on the side table here, and if you want to pick that up on the way out, it will provide more detail on the general points that I'm going to describe here. And also, if you don't get a copy, please contact Paul Nagle in our Office of Legislative Affairs, and I'll be happy to provide extra copies to anyone who wants one.

When you think about rural telephone company policy and the main amount of work that the FCC does in this

area, you really have to look at cost recovery. That's really the basis of what, that's really 90 percent of the work that the FCC does with regard to rural telephone companies. And telephone companies, it's useful to start at a very basic level and review quickly how telephone companies recover their cost.

A telephone company can recover their cost through charges on their consumers. So when you see the line item on your telephone bill that says, "Local telephone service," $15 or $16 or $17 a month, that is money that the consumer is paying to the telephone company for unlimited local usage. All right?

But there are other line items on a telephone bill that are essentially end user charges. The subscriber line charge, for example, is a federally regulated charge that recovers the cost of the facility used for interstate telecommunications.

So you will see your charge for local telephone service and then you will see a subscriber line charge, and you can think of that as intrastate, for the cost of the facility as it is used just to originate communications

within the State, and also interstate, for the cost of the facility used to call outside of the State.

And the local telephone company can recover a good deal of money off of those mechanisms from its end users. But because there is a policy within the United States of encouraging universal service, or essentially reasonably comparable telecommunications services to all Americans, that is really not designed to recover all of the costs of providing service.

The other way telephone companies recover their cost are through access charges, both interstate--so when a long distance company originates a telephone call, say in New York, and terminates it in North Dakota, the company in North Dakota will receive a per minute charge from the long distance company--and also intrastate. If a person is calling from one side of North Dakota to the other side of North Dakota, they will pay a different rate for interstate access charges, and this is also a cost recovery mechanism. And State, intrastate access charges are regulated at the State level. Interstate access charges are regulated by the FCC.

And then the final area of cost recovery is Universal Service. To the extent you haven't been able to recover your cost directly from your consumers, or from long distance companies for terminating their traffic, the companies can recover charges from systems that have been set up at both the Federal level and in about 24 different States to provide a subsidy to a high-cost carrier. Okay?

Now, what is a rural company, there are two aspects to this. In the Telecommunications Act there are very specific definitions as to what qualifies as a rural telephone company. And the purpose of those definitions is to exempt rural companies from some of the interconnection requirements under the 1996 Act.

The 1996 Telecom Act required all incumbent telephone companies to provide access to their networks, but the judgment was made that in some cases rural telephone companies might be undermined. Their sources of support, their ability to operate might be undermined if they open their network to competitors, and so certain rural telephone companies, as defined by the Act, are exempt from those requirements.

The other way to determine what a rural telephone company is, is how it is regulated in terms of its end user rates. There are price cap carriers, who are usually the largest carriers, the RBOCs--the regional Bell operating companies being Verizon, Quest, Bell South, and SBC--and then mid-size rural carriers are usually regulated on a price cap basis, meaning that they can charge up to a certain level and no more than that. If they can lower their cost, they can pocket the difference between their costs and their maximum rate.

Rural carriers are normally regulated on a rate of return basis, which is how telephone companies were regulated for most of the 20th century, which essentially means they can recover their actual costs plus a rate of return over and above those actual costs. So there are technically two different ways of determining who is a rural carrier and who is not a rural carrier, one according to the Act, and that relates to interconnection obligations; one according to how they are regulated for their end user rates.

Now, the FCC administers two major programs: the interstate access charge regime, which I described very

briefly, and the rates at which the local telephone companies can recover the cost of originating inter-exchange traffic; and also the Universal Service system. There are five funds within the Universal Service system which are aimed towards cost recovery. Three of these are for rural carriers; two of them are for non-rural carriers.

In fiscal year 2004, up through the end of September of this last year, $3.4 billion was allocated, was provided out of these funds. Three-quarters of this amount went to rural and high-cost carriers, and these funds are generally designed to allow companies to recover the portion of their costs that they can't recover through end user charges or access charges.

We have a variety of ongoing proceedings. I can discuss them in any amount of detail in Q and A, but to keep on our time line in good auctioneer tradition, I will cede over to my friend David Furth from the Wireline Telecommunications Bureau, who will describe some of the work we do on the wireless side.

MR. FURTH: Thank you, and thank you for inviting me here today. My name is David Furth. I am Associate Bureau Chief of the Wireless Telecommunications Bureau at

the FCC, and on behalf of the Wireless Bureau Chief, John Muleta, who couldn't be here today, I would just like to talk for a very few minutes about some of the initiatives on the rural wireless side that the Commission is undertaking to spur the deployment of wireless technologies and services to rural America.

The Commission has long recognized the potential of wireless to bring telecommunications to rural businesses and consumers. In areas where population density is low and communities are spread over large geographic areas, wireless technologies often provide a more efficient and more cost-effective platform for extending communication networks than wireline technologies. Therefore, as part of its overall responsibility for management of spectrum, the Commission has placed a high priority on ensuring that our spectrum policies promote rural access to wireless and eliminate regulatory barriers to that access where wireless is the most efficient and cost-effective option.

I will talk very briefly about four ways in which we have sought to promote rural wireless service in the Commission's policies. First, in terms of our overall spectrum policy, we have sought to enhance opportunities for

rural service by putting more spectrum in the marketplace under flexible rules that promote competition.

The past decade, as we have licensed both cellular and PCS and other new services, has seen unprecedented growth in the availability of competitive wireless services, and we have seen this spur wireless deployment in rural areas as well as in urban areas. Although much of that deployment began in urban areas, we have started to see dramatic improvements in the availability of wireless services even in rural communities.

But we also still see gaps in that picture, rural areas that are not well served or don't have as many competitive alternatives as many urban markets do. And so the second aspect of the Commission's policies with respect to rural spectrum is to focus on specific rural focused spectrum policies that will bring advanced wireless technology and wireless competition to rural areas.

This has included several things. One of the initiatives is to make certain spectrum blocks available on an unlicensed basis, under our Part 15 rules, in ways that are suitable for the deployment of broadband networks. For example, the Commission has designated unlicensed spectrum

in the 2.4 gigahertz band and the 5.8 gigahertz band, and this has allowed many wireless internet service providers, what we call WISPs, to gain immediate access to spectrum in rural areas and to provide service to many rural broadband users who are beyond the reach of wireline broadband platforms such as cable modems and DSL. And we are continuing to look for more spectrum bands that would be suitable for this type of unlicensed use by rural WISPs.

We have also sought to make significant portions of our licensed spectrum available to rural service providers, using small geographic licensing areas that are tailored to the areas that those rural providers serve. For example, the Commission recently licensed 12 megahertz in the 700 megahertz band on this small market basis, and this resulted in many licenses being awarded to rural providers, including a number of wireline rural telephone companies that also seek to provide services on a wireless basis.

The Commission has also sought to make sure that its technical rules accommodate the sometimes distinctive technical requirements of building rural wireless networks. One example in an order that the Commission adopted this summer is to allow rural providers to operate at higher

power so that their systems can reach customers who are typically more widely dispersed than in urban areas.

Third, the Commission has sought to provide direct incentives to encourage rural wireless deployment. A key component of this effort, of course, is Universal Service, which Jeff has alluded to and I'm not going to talk about in my presentation. But our rules do make Universal Service available to wireless as well as wireline services.

In addition, we have sought to use mechanisms such as bidding credits in our auction program to reduce the cost of spectrum access for small businesses, including many rural businesses, and to promote wireless build-out. We have also adopted a specific bidding credit that's targeted to deployment of wireless services in tribal areas.

Fourth and last, the Commission has engaged in extensive outreach to rural communities to inform them about our policies and programs, and so that we can learn more about rural telecommunications needs. We have conducted numerous workshops and forums, both in Washington, D.C. and around the country, to bring equipment vendors, service providers, State and local governments, and other rural

stakeholders together to identify challenges and solve rural telecommunications problems.

One thing I would like to highlight as part of this effort is, the Commission has been working closely with the Rural Utilities Service of the Department of Agriculture to link our rural policy initiatives with RUS grant and loan programs that support broadband deployment. Last year, the Wireless Bureau and RUS launched a joint outreach initiative, I think the first of its kind with respect to service to rural communities.

The goals of this initiative are to encourage greater access and deployment of wireless services to enhance economic development in rural America; for both agencies to work jointly with rural governments, businesses and consumers to coordinate our rules and regulations that affect rural wireless services; and to develop a joint model rural wireless broadband community project.

And in fulfillment of that last objective, WTB, the Wireless Bureau, and RUS have recently launched what we call Project Vision, which is a program in which rural communities that are seeking to deploy wireless technology can come to us for technical assistance and consultation.

Although this program is not a funding program, we are hopeful that it will result in successful deployments that can serve as models for other rural communities.

This is necessarily, given the time constraints, a very brief overview of a lot of complex issues, but I hope it's helpful to the work of the Caucus. I am happy to answer any questions that you may have, and I thank you for your time.

MR. GUTKNECHT: Thank you, David. We will come back for a round of questions. We have been joined by John Peterson, the co-chair of the Rural Caucus, and Congressman Steve, alias "Sky" King from Iowa has joined us as well.

Next we will go to Mr. Curtis Anderson. Curtis Anderson is the Deputy Administrator of the Rural Utilities Service at the U.S. Department of Agriculture.

MR. ANDERSON: Thank you, Mr. Chairman. Good afternoon.

Mr. Chairman and members of the Rural Caucus, of the Telecommunications Task Force, thank you for including USDA rural development telecommunications program in your meeting today. As David Furth just mentioned, we are happy to be partners not just with FCC but with NTIA, with the

Appalachian Regional Commission, and many endeavors in the area of telecommunications in rural America, and also with our utility commissioners.

Your title, "Telecommunications Challenges Facing Rural America in the 21st Century," is indeed appropriate. It would be equally appropriate to your title, to title this subject "Opportunities for Rural America in Telecommunications in the 21st Century." Today's high speed technology offers tremendous opportunity.

The isolation of rural citizens provides an opportunity for a different life style than we face in areas like Washington, D.C. That isolation has traditionally also created barriers from high-paying jobs, professional opportunities, limitations to business for marketing and supplies. It has more often than not meant that schools did not offer all of the educational opportunities we each want for our children. It has also meant that quality health care is not available.

As far back as 1934, Congress determined that the quality of our communication systems depends on all of us. USDA, starting in 1949, has provided financing for telephone infrastructure in rural communities. Today, USDA's Rural

Development Telecommunications Program still provides financing, through appropriations from Congress, for the traditional telecommunications infrastructure program.

Even prior to passage of the Telecommunications Act of 1996, Congress enacted the Rural Electrification Loan Restructuring Act of 1993, that required that facilities financed by USDA be broadband capable. We have invested almost $3 billion in broadband capable infrastructure during the last four years in rural America.

We have seen aspects of the Telecommunications Act of 1996 that are working very well. Many of the larger carriers sold off rural local exchanges, and our borrowers have purchased them. Often the existing equipment is obsolete, and because of our requirements that only the best and most modern equipment be used, service to these rural consumers has improved when we have financed them through the USDA.

The larger companies have the ability to concentrate on the more populated markets where the margin of profit is higher and the market can support multiple service providers. This is the case where competition is

working and consumers benefit from choice. We believe that was one of Congress's intentions in the 1996 Act.

In addition, Congress has added several new programs for USDA to administer. In the 1990 Farm Bill, Congress provided for a grant program for funding end user equipment for distance learning and telemedicine. We call that DLT. That has become one of the most popular programs we administer. It was recently reauthorized by the 2002 Farm Bill.

DLT grants have represented some of the best in public-private sector partnerships. Communities have found innovative ways to improve educational opportunities and medical care to rural citizens. Competition for these funds has remained very intense. In those early years we used to struggle with $5 million to $7 million in funds. Today we often receive $25 million in funding from the Congress.

In addition, in the 2003 Farm Bill Congress provided a new program for funding broadband service to rural towns with populations of 20,000 or fewer in their surrounding communities. Legislation directed USDA to give priority to areas with no broadband service, but we were allowed to fund viable applications in areas where there was

another provider, creating consumer choice through competition. President Bush continued this in his call for the entire Nation to have affordable access to broadband service by 2007, and that competition developed out of that access.

USDA funding is important. Private sector funding is very limited for broadband deployment in rural areas, because today it is not a given that everyone will subscribe to broadband service just because it is available. You must continue to drive the demand. Over $1.5 billion in applications have been received by USDA. We have funded almost $600 million in applications. Many of these were very different from the applications we had seen before.

These applications are often multi-community and multi-State. They involve multiple technologies and serve areas that are unserved, or underserved in areas with broadband service. Making the financial business case in these applications is sometimes a challenge for the applicant, and as well as the lender, as I am sure you understand.

Let me mention one other aspect regarding the deployment of broadband in rural America. Some areas simply

cannot afford loans. As such, each year for the past three years Congress has given us grant funds to use for the deployment of broadband. We have used these funds in a program we call Community Connect. Regulations of this program limit it to areas that have no broadband service, that are economically challenged, and that are the most rural and isolated of all communities.

In addition to connecting the communities' essential facilities such as fire, police, rescue, hospital, local government, and schools, and offering service to homes and businesses, they must provide a community center with at least 10 computers that will be open to the public to use and learn how to use the internet. We have had one grant recipient tell us that this has been such a successful model for developing a demand for broadband services, that they have started using their own funds to do the same thing in similar communities.

As you can see, through the administration's work and Congress's support, USDA has a host of tools for telecommunications growth in rural communities. It still costs more to deliver telecommunication services to rural America than it does in more populated areas. We believe

the strength of our communications system, and in fact our country, depends on everyone being connected, and we support efforts that drive investment in deploying advanced telecommunications infrastructure in rural America.

Thank you for having us here today.

MR. GUTKNECHT: Thank you, Curtis.

Next we're going to go to John Kneuer. He is the Deputy Secretary, National Telecommunications and Information Administration, part of the U.S. Department of Commerce. John, thank you very much for coming.

MR. KNEUER: Thank you, and thanks very much for calling this hearing, this panel. The importance of telecommunications policy, broadband access to rural America, is very much a focus of what we do at NTIA and in the administration.

I think there is no place that is more clearly manifest than in the aggressive goal that the President set for all of us, that my colleague alluded to, of universal and affordable broadband access for all Americans by 2007. Inherent in that, explicit in that goal, is that we reach all of rural America as well as the suburban areas and the urban areas.

We think that it is critical. The benefits of broadband aren't limited to urban areas, and in fact they can be magnified in rural communities by giving these communities access to services and facilities and economic opportunity that they otherwise wouldn't have. The President had come to the Department of Commerce and he made the point, folks like living in rural areas, and by the function of that choice to live in a rural community, they shouldn't be barred from the sort of services and access that those of us in the cities may achieve.

We talk an awful lot about this throughout the industry, and different people at this table, about the need for broadband, that we need to exercise it and make sure that it gets deployed, but we sometimes lose sight of what are we trying to accomplish in doing this. There is an anecdote that I would like to share. I see some familiar faces in the room. They have probably heard me tell this story before, but it really sort of brings the whole issue into sharper focus for me, at any rate.

When we were planning on having the President come to the Department of Commerce to talk about broadband issues and the innovation economy, we went out and visited with

some folks who would be able to illustrate the benefits of broadband to the President. We went out to Children's Hospital to visit with their telemedicine program, and we met with a doctor in a small room, not a super sophisticated facility. He had a pretty basic computer set up, not super fast high speed broadband. It was less than a megabyte.

But with that facility he was able to provide diagnostics to a child in rural Maryland. He was performing a cardiosonogram on a newborn infant whose heart was making weird noises. The way the doctor was describing this, that can be very, very bad. You know, it could be a critical situation.

So he talked through a technician on the other end of this broadband connection: "Give me this view of the patient's heart. Give me that view. Give me this." And he got reassured that this child was in fact fine. He then asked, he said, "Is the mother in the room?" And when he was told that she was, they were able to move the camera onto the mother, and he said, "Look, you've got nothing to worry about. Your baby is fine. You can take your child home. You don't need a follow-up appointment. You don't need anything. Everything is clear."

Seeing the relief on her face was amazing, the ability that he was able to provide his expertise and give that relief to her. The alternative, without that technology, when a doctor in that rural community in Maryland was faced with a diagnosis that they couldn't make on their own, that level of concern, they would send a helicopter from Children's Hospital, pick that child up and bring it back to Washington.

So, I mean, aside from the economic cost of tens of thousands of dollars, of sending a helicopter to get that child, saving the emotional costs on the family and being able to say, you know, "We can provide the same world class medical expertise that you receive in a facility like Children's Hospital in Washington, D.C., it can be extended to rural Maryland," those are the kinds of things, the kind of benefits that we will bring to rural America and ensure that rural America enjoys when we achieve the President's goal of universal and affordable broadband by 2007.

So that's why we want to do it. Let me tell you a little bit about what we have been doing to achieve that goal. We have undertaken a set of fairly comprehensive fiscal policies, regulatory policies, technology policies,

to ensure that we have a competitive and fully deployed broadband system.

On the fiscal side, we have increased the, accelerated the depreciation of capital-intensive equipment like broadband, an important tax consequence for the company that will be deploying broadband technologies. Likewise, we have supported the reinstatement of the internet tax moratorium and have urged for that to become permanent. I think the President has said if you want something to grow, you don't tax it. The President's budget for '05 has the largest research and development budget in our Nation's history, which is very critical for new technologies to come out.

Likewise, our regulatory policies that our colleagues at the Commission have been pursuing, I think the broadband part of the Triennial Review Order is something that doesn't really get the credit that it deserves for clearing out the regulatory underbrush and really incentivizing some of these companies to begin their broadband rollouts.

Likewise, the Federal Government is doing its own part with regards to rights-of-way, and that is critical for

rural communities. In the past a company that wanted to deploy broadband technology or any sort of telecommunications technology across rural America, often they are coming across Federal lands they need to get across, and often they may need to get across Federal lands that are controlled by different agencies. It could be a Department of Defense facility, the Forestry Service. Each of those agencies may have had different processes for granting rights-of-way. We have unified that and standardized that process. That makes it much more streamlined for companies to get access to Federal rights-of-way.

I think one of the most important things we are doing, as well, is in regards to new technologies that are potential competitors and provide more economic solutions for bringing broadband to rural communities. David talked a lot about the spectrum policies that the Commission has been undertaking in the wireless, encouraging wireless technologies. That is something that is very much a focus of what we do at NTIA.

We have doubled the amount of spectrum that is available for WiFi, the 5 gigahertz band. WiFi offers

enormous promise for rural America. There is a town in California, Cerritos, California, which is not terribly far from some of the urban centers in California, but because of the geography they had essentially no cable broadband, and they were too far from a central switch to get DSL to most of the community. The town granted access to all of the street lamps in town to a WiFi carrier, a WISP, as David referred to them. They were able to put WiFi antennas, small antennas, on each of these street lights and they have lit up this entire town. It's 25,000 people. I don't have the data point in front of me.

It is those sorts of models that can be repeated over and over again. I think the wireless solutions and our spectrum policies are going to be critical. As part of that, I will quickly mention the President initiated his spectrum policies for the 21st century, which encourages, it is trying to institutionalize processes into our spectrum management proceedings, that we can repeat the kind of experiences and the successes that we have had with WiFi and making additional unlicensed spectrum available.

I will give quick mention, also, to broadband over power lines. This is a technology that offers tremendous

promise for rural communities. It allows us to leverage the existing electrical grid, the existing electric infrastructure that already does reach the vast majority of America, including rural communities, turn those facilities into broadband facilities as well.

There are technical challenges related to the deployment of BPL, with regards to interference from other radio systems, I don't think we need to go into in great detail. But we worked at NTIA with the industry, with the FCC, to put together a firm technical footing for the roll-out of BPL. I think BPL is a technology that is going to be coming very quickly as well.

The sum total of all of these policies and our objective is to create the most competitive broadband marketplace in the world. I think that the rural community is one that is an attractive market when there are multiple technologies that can provide that service.

So I look forward to working with the Caucus, working with the FCC and other colleagues around the table, and I'm sure many of the stakeholders who are in this room. I think, working together, that we will meet the President's

goal of universal and affordable broadband by 2007. And I thank you again for calling this meeting.

MR. GUTKNECHT: Well, thank you, John. I want to note that we have been joined by Representative Davis and my co-chair, Representative Bart Stupak from Michigan, so we want to welcome you. As I mentioned in the beginning, there are a lot of other meetings going on, so Members are going to be sort of filtering in and out.

Next we will go to Mr. Tony Clark, who has already been introduced, president of the North Dakota Public Service Commission and the National Association of Regulatory Utility Commissioners.

MR. CLARK: Thank you, Mr. Chairman, and thanks to the members of the committee. It is my pleasure to represent today the National Association of Regulatory Utility Commissioners, which represents the 50 State utility commissions throughout the country. A special thank-you to Congressman Pomeroy for the kind introduction.

As Congressman Pomeroy indicated, both he and I, and I am sure all the members of this committee, take this issue of rural telecommunications deployment very, very

seriously, because it is important to your districts and to States like mine.

It occurs to me that in days gone by it was typically geographic vagaries which would determine where economic development would take place and commerce would take hold and towns would grow up and things like that; things like if two rivers met at a critical intersection, or where the railroad crossed the river or things like that.

But today more and more we know that it is access to the information superhighway that is going to determine where that type of quality of life can take place, and in rural America that's why we do take it so seriously. And so I thank you for convening this forum. Today I will highlight a number of issues that will figure prominently over the next year or so in the telecom agenda as they relate to rural telecom services.

Of course, first and foremost is universal service, which is a long-standing cornerstone of State and Federal telecommunications policy, designed to ensure that consumers in rural and high-cost areas have access to a similar spectrum of telecommunications services as in urban areas and, importantly, at reasonably comparable rates. It

also ensures basic service access for low-income consumers, internet connections for schools and libraries, and supports rural health care initiatives.

Since 1996, the costs of universal service have shifted to explicit State and Federal Universal Service programs, and in many areas implicit subsidies do still exist, but competitive markets and new technologies are upsetting the stability of these older support regimes.

The current support mechanisms for universal service are becoming poorly matched with the evolving telecommunications market. Because so much of them are dependent on minutes of long distance use for support of the Universal Service program, as those minutes of use decline and users migrate to newer, emerging telecommunications services that are outside the current regulatory construct, the growing burden of maintaining universal service is falling on a shrinking base of customers, which pushes universal service ever closer to a tipping point on sustainability.

The challenge for policymakers that are working to preserve universal service in a modern digital communications world is to design a support system that is

more consistent, reliable, and sustainable. One issue which has recently emerged is with regard to the Anti-Deficiency Act and Universal Service, and it is one that I am sure Members will want to keep tabs on.

In the near term, NARUC has urged Congress to help preserve the Federal Universal Service program by exempting it from the Anti-Deficiency Act and the Miscellaneous Receipts Act. This is because the FCC recently directed the Universal Service Administration Company or USAC, which administers universal service funds, to change its accounting methodology for the Universal Service Fund to the same methodology the Federal Government uses. While USAC has adequate funds to pay all its bills, these accounting standards have created a temporary cash flow problem that has delayed the release of new commitments to schools and libraries across the country, as well as the rural health care program.

Universal Service is, however, both a State and Federal commitment. About 24 States have implemented programs that fill in the gaps missed by the Federal fund. These programs collectively distribute more than $1.9 billion annually. Unfortunately, State Universal Service

Funds are also in danger because Federal courts have restricted them from assessing against services that are interstate in nature, and the FCC has classified a growing number of these services as interstate. Any comprehensive reform of Universal Service must include a viable means for the growing number of State programs to be sustainable in a market increasingly being dominated by emerging service.

Finally, intercarrier compensation policies, which Mr. Carlisle touched on, they determine how carriers compensate one another for handling calls, and they also have a significant impact on rural phone rates and the ability for rural phone deployment, because rural carriers especially rely disproportionately on interstate and intrastate access charges as a part of their revenue base.

There are really only three sources of revenue for telecommunications carriers: end user rates, access charges, and the Universal Service Fund. The current intercarrier compensation system was developed on a piecemeal basis over many years, and now has different rates for terminating calls based on a number of factors. These differentials have led to increasing market distortions that are threatening this rural revenue source as well, and any

meaningful reform of rural phone service will have to address intercarrier compensation.

Mr. Chairman, this concludes my testimony. Again, thank you for this opportunity. NARUC and the State Commissioners look forward to working with you and engaging with you over the coming months as we address these critical issues in rural America.

MR. GUTKNECHT: Thank you, Tony.

Finally on this panel we have Mr. Harry Roesch. Harry is the telecommunications advisor to the Appalachian Regional Commission. Welcome, and thank you.

MR. ROESCH: Thank you very much for inviting the Appalachian Regional Commission to participate in this activity.

In the request from Congressman Peterson--it's nice to see you again--you had asked me to specifically address certain issues of the Appalachian program. Many of the points that have been brought out by the other gentlemen around the table here, and some of which I have had long working relationships with, are covering a lot of the issues, so I have been editing my comments down so that I don't repeat what they have said.

But I would like to say and give you a little perspective of "the little engine that could," the Appalachian Regional Commission. We started out in this telecom business back in 1972 by putting a fixed, in-orbit satellite which was jointly with NASA and the country of India, to provide educational opportunities for the region.

That program developed into the ACS Network, which was the Appalachian Community Satellite Network, which was eventually sold and it is what you see today on your cable network which is the Learning Channel. It was put there for the purposes of improving the quality of education.

Between the period of the 1970s through the 1990s, we did a lot of terrestrial work with microwave towers. We did a lot of downlinking with the satellite equipment. And we also got involved in building up some of the nascent educational networks that started to come up throughout the Appalachian region, and one of our early partners was the Tennessee Valley Authority.

We set up a very large initial telemedicine program called the Mountaineer Doctor Program in West Virginia, and it was a very successful program, and I think it was the beginning of the changeover of the Commission's

programs to really look at a broader perspective of what has been undertaken.

Between 1991 and our current last fiscal year ending of 2004, we took on a policy position that the Commission would not fund projects unless there was a multiple sector beneficiary. Not tiers of the same sector, but the concept was that we would deal with the benefit to the education community, the health sector, the government sector, or the business sector. To this date we have not had a system go down, because what it built in was partnership within a community as well as sustainability.

We have provided untold millions of dollars over the last 10 years for two key elements: strategic telecommunications planning at the local level, at the State level; and at the same time we have worked on helping communities figure out how to aggregate their demand, so they can go to the telephone company or the cable company or the wireless service provider or the ISP and say, "This is our market. These are my partners. This is what we need. What can you do?" It gives them the bargaining position.

What we have funded over the past 30 years, and I will just tell it to you in a nutshell, is e-learning or e-

education, telemedicine, e-government, and e-commerce. That is it in a nutshell, in one sense, without getting into depth of program. But let me talk to you specifically about what we are doing in a very current context since 2001.

At that time we had recognized, after having an initiative in telecommunications in 1996 through 1999, that this was a huge new area pushed by all of our Governors and a major concern throughout the region. As such, we commissioned and undertook a really insightful look at what we had done in the past, what we needed to do, and we formed a task force and developed what we referred to as the Information Age Appalachia Program. It was formally adopted in November of 2001.

There were four pillars. The primary aspect behind all of this was, of course, the access to affordable broadband, and to make sure that Appalachia had an access on-ramp to the information highway.

The four pillars were to expand access through infrastructure, whatever needed to be done; deal with education, training, work force development and readiness; deal with e-commerce activities, with business-to-business, business-to-government, or business-to-education, so that

internally within a region, the people within the business community and all the other sectors could work together. And our last effort was to basically look at how we could improve tech sector employment within the Appalachian region, to make sure that we had that type of service capability.

If you look on the ARC's web site at www.arc.gov, you will find that as a part of the Information Age Appalachia Program, we undertook a major assessment of what was available in actual infrastructure in place. The report is called "Links to the Future." It has been updated with a revision of last June.

And the report was very interesting, in that it showed major changes between 2000, when the data was basically collected, the information came from the FCC. We went back and revisited again, and we noticed the changes. But we do know, as all of the comments have been made here, that there are services available, but are they affordable? Are they universally available? Or are there issues that are really not able to be addressed without some sort of outside subsidy?

We have held 17 workshops throughout the Appalachian region in order to help people understand what you do to bring broadband into their area. We are funding wireless demonstration projects in seven sites around the region. We have got an agreement with the Carnegie Mellon University to work on helping broadband into West Virginia and Pennsylvania.

We have developed a partnership with the FCC, and working closely with the Rural Utilities Service and NTIA, the Rural Telecommunications Congress and other organizations, to figure out how we work at the greater level. And we have been involved with helping to bring our comments from our agency's perspective to legislation, including the recent revision issues on a position for rulemaking, and we have provided these comments to the FCC on the Universal Service Program as it related to the health care program.

We have funded a tremendous amount of telemedicine projects. It has been talked about a number of times here today, and this is becoming a very increasing and well-adapted program within our region.

In wrapping up our discussion here, we have 73 planning districts around our region. They are the shock troops in the area to provide direct technical assistance. These are organizations that have had to step up to the plate, they have had to learn what telecommunication is. Some of them have become ISPs. Some of them have become involved with all kinds of direct technical assistance. And they are the ones who are really helping the region to breach this gap that exists within access to an affordable telecommunications service.

Again, I want to thank you for inviting us. I will be glad to answer any questions that you may have. Thank you.

MR. GUTKNECHT: Thank you, John. We are going to have a round of questions. We don't have a timer here, but I would ask Members to try and limit their questions and answers to about five minutes, because we do have another panel, and we promised we would try to clear the room by about 4 o'clock.

Let me start. Harry, you mentioned that one of your goals was to make certain that people in the Appalachian region had access to the internet highway. Just

out of curiosity, what percentage of people currently have that access today? Do you know?

MR. ROESCH: Well, there's all kinds of reports that come out from the FCC and so on. I think what we have seen is that when we are looking at the access to where there is multiple service providers, we are still sitting at something like around 59 percent have access somehow, some way, high speed internet access. The country is operating at a figure much higher than that. It is some figure, I believe, in the 85 percent figure that has access.

So we are still way behind, and it is an issue that we deal with,. And the gentleman at the end was talking about the public utility commissions trying to figure out ways to incentivize the existing service providers who are really rural to provide the service.

MR. GUTKNECHT: Let me go to Tony for the next question, then. Sort of in answer to his comment, what can the public utilities commissioners and what can we at the Federal level do to increase that level of access?

MR. CLARK: That level of broadband access?

MR. GUTKNECHT: Right.

MR. CLARK: Well, from the standpoint of North Dakota, I guess I will speak first, we have actually been fairly fortunate I think in North Dakota, in that the rural carriers that we have have done a very good job of deploying broadband. And we probably have--you just talked about the ability of consumers to get some kind of broadband --almost universal coverage, and the reason for that is satellite. We don't have in North Dakota quite the problems with foliage and leaves that they have in the Appalachian region, so just about anyone out on a farm, if they have a view of the southern sky, can get broadband access of some kind. So we have been fortunate.

Where we are seeing an emerging issue, I guess, is in areas that are suburban, around towns that may be served by in our case Quest, the Bell company. And one of the things that I think could be helpful--and this is me speaking, not necessarily our association, because there's different views across the country--is to reform how some of the Universal Service dollars are distributed amongst larger ILEX.

Congressman Stupak has a bill in that he has sponsored which would address some of those concerns, to

more evenly spread those out among different areas of the country. Right now only a very few States have access to the Universal Service Funds for larger ILEX, putting aside the high cost rural fund.

MR. GUTKNECHT: Well, I have to tell a story. I was in the middle of South Dakota over the weekend, hunting pheasants, and we were what the uninformed would describe as in the middle of nowhere, and all of a sudden one of my colleagues that was with us, his cell phone went off, and I was astonished at how clear the reception was. Now, it wasn't clear everywhere, but at that particular location the cell phones worked just amazingly well.

I want to come back, though, on the issue of some of these new acronyms that didn't even exist a few years ago, things like VOIP, WISPs. What was the other one? WiFi. All of those present specific challenges, though, to rural telecommunications companies, to rural telephone companies, because I think you mentioned that as people find ways around using their normal telephone companies, and if they lose universal access funds, all of this makes sort of a bad situation worse for the rural telephone companies, doesn't it? Do you want to talk a little more about that?

MR. CLARK: You are exactly right, and it has to do with--thank you for the question, Congressman--with the sustainability of these rural Universal Service Funds. The basic problem is that as the current law has been written and interpreted by the courts, really it has fallen almost entirely on long distance revenues to support Universal Service Funds. More and more consumers are going to VOIP, are going to other emerging services, and so it happens that long distance minutes of use are declining.

In addition, this same effect happens on intercarrier compensation, which is one of the other major legs of that stool that support rural telephones. And you have different types of technologies being sort of fees assessed to them in different ways, and so it happens that engineers are very smart people, and they will engineer their networks to have the lowest cost regulatory regime.

So what really needs to take place, and NARUC has been very involved in this, and the FCC has been as well, is a very intensive study, and more than just study, action, which will probably include potential action here in Congress to change some of the ways the '96 Act works, to

shore up these funds, to make sure that these networks can be supported.

Because even in the case of, for example, VOIP, which is a very hot topic right now, those bits still flow over some sort of network, and in rural areas it is a network that will probably have to be supported with some kind of subsidy.

MR. GUTKNECHT: Well, thank you. I don't want to take any more of my time. I'm going to turn to my counterpart, Bart Stupak, for a few questions, and then we will sort of go in the order of folks, that they came. Bart?

MR. STUPAK: Well, thank you, Mr. Chairman. Sorry I was a little late. I was at one of those reorganization meetings that we all must attend.

I thank you gentlemen for appearing here today. Mr. Anderson, I believe you testified that $600 million has been awarded in loans so far?

MR. ANDERSON: Almost $600 million.

MR. STUPAK: Almost. How many have been to incumbent telephone companies or incumbent telephone company affiliates?

MR. ANDERSON: I don't have that number offhand, sir. I could get that back to you.

MR. STUPAK: Would you say more than half?

MR. ANDERSON: I really can't tell you, Congressman. I would have to get back to you.

MR. STUPAK: What is the average time to, once a company applies or a company applies, until the time they are approved?

MR. ANDERSON: that has been reducing over the years, over the year. Obviously our first ones, we got the regulations in place before we put out anything, and then we had to process it. It has been, up to now, about 18 months. The first ones were about 18 months. Our goal is to get it down to three months, but--

MR. STUPAK: Are there some changes in the law that we need to make? Because what we hear from folks when they apply is that the application is burdensome, it's time-consuming, and they just find it overly burdening.

MR. ANDERSON: Well, at this point, Congressman, we are looking at the program. We have just gone through some loans at this point. We are assessing it ourselves. We think we can improve it without changes at this point,

which doesn't mean down the road we might not think about what might improve it.

It is burdensome party because we are looking for financial viability, and you are talking rural areas. The business model is very different for each one of these. Each application is unique. It's not the same type of technology. Sometimes they are multi-State, sometimes they are multi-community. Some of them are single community. So there isn't a cookie cutter approach that we can apply to this.

MR. STUPAK: I don't disagree with that, but what I and others wrote the law back in 2002, we were trying to put broadband deployment in rural areas where we found that maybe incumbent phone companies and even cable were a little reluctant to go. So that is why we put the loan program in there, so some of these new start-ups could actually try to make a run at it in the rural areas.

So I will be real interested to hear your answers on the incumbent phone companies and their affiliates as opposed to new start-ups, because I believe most of the money is going to the incumbents who sort of shied away from the area to begin with. Shouldn't we really be putting it

into those folks and those entrepreneurs who are willing to go into the rural areas and provide a service?

MR. CLARK: I think you will be surprised by the numbers, Congressman, but I do know we have a lot of new companies coming in, which is part of the challenge. We have people coming in who don't have experience or background in this area, but we have actually provided loans to many of these new carriers.

MR. STUPAK: Well, I will be looking forward to those answers to those question, because I would like see that.

What was the rationale behind the loan to the Houston company that made the papers here recently, $22 million?

MR. ANDERSON: ETS.

MR. STUPAK: Right.

MR. ANDERSON: They qualified. They are in a rural community as defined by the U.S. Bureau of the Census.

MR. STUPAK: Is it a rural area or an underserved area? I mean, this is a place that has a freeway going right by. In my district we don't even have freeways.

MR. ANDERSON: I understand, Congressman. It is not as rural in people's minds as maybe some other areas are, but according to the Act and the regulations that we work under, we serve communities of 20,000 or less in the broadband program, which is different from our infrastructure program.

And what we look at is communities that are either incorporated or unincorporated, as defined by the U.S. Bureau of the Census. And this particular area, which is defined by the U.S. Bureau of the Census in the latest census as being qualifying, as being 20,000 or less in an unincorporated area.

MR. STUPAK: Well, was it given to an underserved area or a rural area, this subdivision?

MR. ANDERSON: At the time I believe the subdivision was actually just being put in place. There were many--there's parts of it which aren't even built up at this point.

MR. STUPAK: Well, in the articles we read, they are ready to cut the ribbon for the freeway. That takes more than 12 months to do a freeway, usually, especially

when you are coming from downtown Houston, so I would think that that would have been there for a while.

See, my concern is, I want to make sure the rural areas are getting it, not a brand new subdivision where the homes are a million dollars apiece, and because they don't have it right now, we can qualify it as rural because there is no provider there, but you are having homes like that.

I would think we would want to put the money into the rural areas, so we can receive the phone when we are pheasant hunting, whatever, or deer hunting up in northern Michigan, as opposed to a subdivision outside a major city. That may be underserved, but it certainly is not a rural area by any stretch of the imagination.

MR. ANDERSON: I understand your comment, Congressman. The funds are available. We still have significant funds available, and we have applications in hand that are pending. We have funds to cover those applications, so at this point it is not as though there is any rural area that has applied that has been affected by this.

It once again goes back to the point, under the statute that is provided to us, it qualifies, because we go

with the Department of Census definition of a community of 20,000 or under in an unincorporated area. We don't have a basis to deny eligibility.

MR. STUPAK: Not on economics? If the homes are going for half a million to a million dollars, wouldn't that be not a rural area that we're trying to--

MR. ANDERSON: Not under the statute that we are working under, Congressman.

MR. STUPAK: Really?

MR. ANDERSON: It doesn't define it by income group.

MR. STUPAK: Well, I will be interested in taking a closer look at that one, because you denied the one from Grand Rapids to Sault Ste. Marie to Marquette, for all of our hospitals, for telemedicine and everything else, because it ran through Traverse City, which is a town of about 30,000 but the homes are too expensive in that area. Therefore, they did not qualify. So I will be real interested in hearing the rationale on that more.

Mr. Chairman, with that, I will yield back my time.

MR. GUTKNECHT: The gentleman from Nebraska, Mr. Osborne.

MR. OSBORNE: Thank you, Mr. Chairman, and thank you gentlemen for being here today. I guess this would be addressed to those from the FCC.

It is my understanding that the Federal-State Joint Board has recommended that only one line per consumer, the primary line, should have Universal Service funding. Do you feel with this loss of revenue, the small telecommunication providers will remain financially viable in the future with that limitation?

MR. CARLISLE: We have that recommended decision from the Joint Board under consideration. Under the statute, we are required to issue an order within a year of receiving it, and I believe the year is going to be up at the end of February of 2005, so we currently have that under consideration.

My understanding is, the Joint Board made its recommendation on the basis that Universal Service is intended to support a basic level of service into the home; that primary line was a reasonable limitation, to implement that limitation on the funding; that further lines into the

home, funding of that would probably expand the size of the fund and the need for subsidy beyond what was reasonable under the statute.

There is another side of it, which you mentioned in your question, that at the end of the day it is the carriers who are receiving the funding who have to support their cost structure in order to be able to provide even a primary line, much less any other services, so having this kind of restriction is arbitrary.

So we have got both of those arguments under consideration. We are not obligated to follow the recommended decision of the Joint Board, and the Commission will make its decision in February.

MR. OSBORNE: You have no indication right now as to which way that's going to go?

MR. CARLISLE: I couldn't tell you. I haven't been briefed by my own staff on the actual pros and cons of going one way or the other, and I would be happy to follow up with your staff in more detail.

MR. OSBORNE: We would like to do that, because obviously we are very concerned about rural areas.

MR. CARLISLE: Absolutely.

MR. OSBORNE: And as you know, most households have more than one line anymore, at least quite frequently.

This question will be directed primarily to the USDA, whoever wants to field that. I guess you have primarily one representative here.

But it's my understanding that the broadband loan program was designed primarily to underwrite efforts to bring broadband to areas that currently have very little or no service, and yet some have claimed that the Rural Universal Service has granted a number of loans to companies that will in fact be the second or third broadband provider in a community. Why haven't more loans been given to companies that plan to bring broadband to areas that don't have it at all today? So why would they be using these second or third providers?

MR. ANDERSON: Thank you, Congressman. Under the statute, priority is given to unserved and underserved areas. However, the statute specifically provides for competition, for us funding competition. It was actually first for us in our programs. The Telephone Infrastructure Program doesn't really provide for competition.

We have looked at the applications that have come in. We have received a total of 120 applications. Thirty-five have been approved, 59 have been returned, and 26 are pending, that we are looking at. This year we had some money that we felt we had to get, to obligate, and we have obligated that money based upon the quality of the applications that have come in.

As I mentioned to Congressman Stupak, as applications come in, there are some unique ones, different types of technologies, different types of service areas, and therefore we are looking at them and doing the best job that we can at this point to serve those areas. But we are looking at the statute, and our priority is for unserved and underserved areas, but it specifically provides that the next step is competition for existing areas.

MR. OSBORNE: One last question that might again be USDA-oriented. Are you concerned that the threat of government-managed competitors will provide a disincentive for private companies to invest in rural parts of the country?

MR. ANDERSON: Well, as we look at our loan applications, obviously we are looking at financial

viability of those loan applications. That is based upon market studies done at that time. As you know, in any competitive environment, things change. As we look at it, our concern is, we want to invest in rural America. Anyone who has a reasonable application that is financially viable, we would like to get it out there.

I think when you talk competition, you always run that risk, that some companies will fail and some companies will not. We hope that, we would like to see that all of ours don't fail, but we would like to see that all of rural America gets service. That is our primary objective.

MR. OSBORNE: I have no further questions. I would just like to address a comment to all of you gentlemen, and that is that we find that e-commerce and e-rates and distance learning, and also rural health services, telecommunications services are critical. The further you get out West where there just aren't very many people, the more critical they become.

I know that the profit centers tend to be in the cities, in the urban areas, and one thing that we have noticed is that small local telecoms are about the only ones that are willing to serve so many rural areas. So

sometimes, if we don't keep these small rural telecommunications companies alive and viable, there is no service.

So we think that is critical, because we talk all the time about rural economic development and trying to reverse the out-migration of the population of young people, and about the only way that is going to happen is by investing in rural telecommunications. So it can't all be profit-driven, you know. We have to in some way prime the pump, and I guess believe in free enterprise as much as anybody, but if we don't continue to serve these small communities, we are just going to see a further deterioration of what we are experiencing right now.

The particular district that I serve has 68 counties, and 56 of the 68 are out-migration counties, where we have lost 10 percent of the more of the population in the last 20 years. And about the only thing that is going to stem that, as I see it, is improved telecommunications. So we appreciate your help and appreciate your consideration.

With that, I yield back.

MR. GUTKNECHT: Thank you, Tom. Next I'm going to go to John Peterson, and then we'll go over to Lincoln and

Allen. The voice of rural Pennsylvania, Congressman John Peterson.

MR. PETERSON: Thank you very much. I apologize for being a little bit late. I'll do a disclaimer here. I was told this morning, after a procedure where I was under anesthesia, that I would be legally drunk the rest of the day, so if I don't make much sense, it's not my normal mode, I hope, because I'm not normally a drinker.

But anyway, I want to compliment Representative Gutknecht and Representative Stupak for their leadership here. I mean, this is timely, and we are not waiting until the 109th Congress but this is work for the 109th Congress, and I want to thank you both for being willing to take this issue. I felt, all of us felt so good about it when you both agreed to do this, because you have shown leadership in the past, so we are going to be there to help in every way we can.

I want to thank the panel today, because we have had some very good testimony. I want to follow up on Representative Stupak's and Congressman Osborne's discussion with rural development. And I don't want this to be personal, but I have a working group at the State, in my

district. It's almost a State. I have 17 counties in Pennsylvania. And we have had a working group for the last while, and we have the State leadership involved in it, the economic, Department of Commerce and other people.

This is a comment from them about the loan program, and I think we need to address it: "The application process is onerous and expensive. Pre-application engineering fees can exceed $100,000, and the application documents are measured in inches. The financial requirements in terms of fixed assets preclude most new broadband service provider companies from qualifying. USDR's Rural Utilities Service is the renamed Rural Electric Administration"--and their criticism is that it is too risk averse, and I understand that, and that this is more of a competitive model than we had in electricity, where we were just trying to get a line out there.

I think what has confused us all is, there are so many ways to get there. There's different ways to provide broadband service. And so the rural electrification model needs to be streamlined, I think, in making sure that every potential type of delivery is looked at and potentially funded if it is going to provide service to an area.

But I would say this, having too many years of experience in government: We're always too complicated. You know, government's nature is to be too complicated. I think we really need to look at streamlining this process and making sure start-up companies have a shot at it, or if we're really going to get out to all the rural areas of America.

Would you like to comment on that?

MR. ANDERSON: Thank you, Congressman, for your comments. As I stated, we know that the program just got started.

MR. PETERSON: Yes.

MR. ANDERSON: We did have the pilot program. We learned some from that. We have tried to streamline the process, and it has improved. In fact, we have had some loans approved in very short periods of time. Our general goal was to try to do it in a three-month period, which actually for the history of our program is a very short period of time.

MR. PETERSON: Yes.

MR. ANDERSON: We have had actually some loans approved in less than that, based upon the fact that they

came in with good applications from the start. You have to understand that as we work with these applicants, we have been doing broadband workshops to help improve that process.

We have gone to--well, we went to Philadelphia, for example, Chicago, Philadelphia, Biloxi, Mississippi, Portland, Oregon, and Phoenix, Arizona to do general broadband workshops, so we had lots of people come in to find out how to do the program, how to fill out the applications. We have also done subsequent ones to that initial round in Nashua, New Hampshire and in St. Louis, Missouri, and we have more coming up. We have one planned for Montana, for the northwestern States areas.

But this is our effort to help people fill out the application. They are workshops not to generate interest but to actually sit down and say, "This is how to fill out the application."

MR. PETERSON: Can I react to that? The statement was interesting, you know, knowing Pennsylvania very well. Philadelphia is a long ways from rural Pennsylvania. I would like to suggest that if you went to State College or you went to Williamsport or you went to some fairly decent size rural community in rural--you know, rural Pennsylvania

has the largest rural population of any State in the country. A lot of people don't think, don't realize that. We just have thousands of small towns. It's a State that is very rural except for Philly and Pittsburgh. But Philadelphia is really as far as you can get from the rural scene, and I would urge Federal agencies to try to find a rural setting.

MR. ANDERSON: If I can follow up on that, Congressman--

MR. PETERSON: Sure.

MR. ANDERSON: --I mean, we chose cities as being easy places for a lot of people to come in from many States. We are now, however, in the process, with our general field representatives, of going out and talking in various rural communities, at the request of our State directors, who are going out, who are setting up workshops. We will do that as we see that the demand is there. I know we have been in southern Virginia, for example, which is also a rural area. We are looking at Montana, which is, most of Montana is a rural area.

MR. PETERSON: Oh, absolutely.

MR. ANDERSON: And we expect to do others, now that we have gone through this first round. The first round was to try to jump start the workshops, and it is our hope that we can--you get as many people as you can in one location, and then you start working out.

MR. PETERSON: But representing the largest rural district in Pennsylvania, there are several like it, they don't go to Philadelphia for much of anything. I would just make that point, that you really need to get out in--because you could get a rural area in Pennsylvania where you could serve two or three States that are close to rural populations, and I would urge you to do that.

MR. ANDERSON: We want to do that.

MR. PETERSON: Yes. We look forward to working with you.

I would just like to ask Tony a question. I had experience at the State. I was asked by the president pro tem of the Senate a number of years ago to write a bill that incentivized the telephone companies to invest in Pennsylvania, and we wrote what was called Chapter 30, and we did it with the telephone companies at the table. I

mean, we did it with everybody at the table, and it was not an easy task.

We actually gave them five or six services outside the PUC control that they could become in the competitive marketplace, and we had an ironclad promise that they would invest that money in building, in wiring Pennsylvania. But our PUC didn't enforce it, and 10 years has passed, and that law was let lapse last year. You know, I put in three years of hard work, along with some other members of the Senate and House, but the PUC, our PUC just didn't enforce it.

And they took their profits, I think in some cases, invested in other States and other countries. We had the law very specific, where they had to invest equally at the same time in rural, urban, suburban. They had to first prioritize industrial parks, hospitals, and educational facilities, and they signed up for all that. I mean, they agreed to all of that. It just didn't happen.

But again, it was our PUC who just didn't enforce it and didn't make them keep their promise, and then the law lapsed and so forth. So I would be interested in any thoughts you had. Are there States--and I am going to say this. I was asked to do that because we had a PUC that was

unwilling to change their rules. Because some State PUCs were moving down the road and changing the rules and regulations, on their own incentivizing the broadband deployment, but ours was not, and so we were going to do it legislatively. But those who didn't do it regulatorily, didn't enforce what we did legislatively, so we ended up with little.

Are there States that have done a better job, that we could look at to see what--because you do need a PUC that is modern, too.

MR. ANDERSON: Right. Thank you, Congressman, and I certainly appreciate your frustration. As both a former State legislator and now an elected State utility commissioner, I have been on both sides of that. I am not familiar specifically with that example, but just a few sort of general comments in that area.

It can be a difficult and frustrating thing sometimes on public utility commissions, in dealing with companies that may serve a very large region. Now, it's probably less of an issue in rural areas where, in certainly my State and probably in most, rural areas are predominantly served by either co-ops or small independent telephone

companies, where their only service area is within that particular area, so any money that they get that they need to spend will have to be spent in that district.

Where sometimes you run into trouble is larger companies that may cross a number of States, and what can happen is, is you could get either the company or utility commissions or legislators getting into a game of trying to get the most money for their little area. So you get things like, you know, perhaps money raised in North Dakota, there's a greater return on capital in perhaps Salt Lake City or Denver or a whole lot of larger cities in the Quest region, and you wonder, "Well, gosh, did these profits that are spent here go to there?" And then we are sort of last on the totem pole to get taken care of.

The same thing can happen on the regulatory side, where certain States will try to impose merger conditions and penalties and things like that which you know come out of the entire company pot, and take money from one State and shift to another. So it is almost a game when you get into that, sort of like economic development, but you can't win, I mean, if you get too far down the cycle.

The tack that we have tried to use in North Dakota, and I think other commissions have used to some success, is really judging conditions market-by-market and knowing that there is a time to step back gracefully from regulation where market conditions warrant it, and that encourages investment. And we have had a good deal of success. North Dakota is probably further down the line to deregulation than a lot of States have been, and frankly it has probably been a very good thing for consumers.

MR. PETERSON: Thank you very much.

MR. GUTKNECHT: We will now turn to the gentleman from Tennessee and one of the vice-chairs of the Rural Caucus, Congressman Lincoln Davis.

MR. DAVIS: Thanks. I am going to make more of a comment, perhaps followed with a question.

I represent rural Tennessee. When I say rural Tennessee, it truly is, because when you look at the residency of the district I represent, we are the fourth largest rural residency of the 435 Congressional Districts in this country. More than 10,000 square miles. Some of the counties I represent are between 500 and 700 square miles each, and the populations of those counties may be

less than 10,000, and virtually all is represented by--and I know the Coach is saying, "Well, so what? That's the situation it is in Nebraska as well."

But all the counties, the residents are generally served by a telephone cooperative. We have very few private owned or stockholder owned suppliers of service to the people who live in my district. As I meet with our telephone cooperatives, there is a tremendous fear of losing revenue, which would mean moving to their current customers a much higher bill to be paid. And living 15 or 20 miles away from town, where the only emergency access you have is 911, and not being able to afford the bill, means that it is a life-threatening circumstance for many.

I remember as a kid watching "Route 66." Some of you are probably too young to remember that, but that was a major highway that went from up yonder to out West. We built the interstates, and virtually every business along Route 66 lost their business, whether it is a hotel or whether it is a restaurant or whatever it may be.

I mention that because I also see and feel the fear from our telephone cooperative board members that eventually this scenario may apply to them. However, one of

the real challenges we have today in rural America is the information superhighway. We have the blacktop superhighway now that goes through our rural communities, many times rapidly passing them by.

And fortunately, in some situations in rural America and in rural Tennessee and in rural 4th District, we have been able to recruit industries that would be just-in-time manufacturing, where 24 hours from now a supply part will be provided for an assembly plant, at a Saturn plant in Spring Hill or a Nissan plant, or perhaps maybe a Murray lawn mower plant in Lawrenceburg, Tennessee, and we have been able to compete.

I live 12 and a half miles from my county seat. When I hook up to the internet, it takes me sometimes a minute to get connected, and as I search, it takes considerable time to be able to find whatever I'm searching for. Here it is just like that.

So I know that in rural areas where we live, it is difficult to bring the rapid, quick internet service without extreme cost. Our telephone carrier tells us, "It would be extremely expensive to run a line to your house, but we will." And I said, "No, you won't. I can't allow you to do

that." It's not that important to me personally. But if there is a business in Jamestown that needs it, it's important; or Oneida, or Wartburg, or Sunbright.

So I guess what I'm asking, Mr. Anderson, as we look at the dollars that we have available to us, we have had two economic summits in our district, inviting mayors, city and county mayors, inviting business folks, different entities. And we have had the rural development agency as a participant in that. We have had ARC as a participant in that as well, and you have done a wonderful job.

But one of the things that we are missing, I think, is the information flow to perhaps our civic, our community and our elected leaders, about some of the loans or grants that you are talking about. And I sense that our small telephone cooperatives are not as well informed of available resources to them.

And my hope is that in the future there would be-- I think you said in Philadelphia there was a meeting. If you had a meeting in Nashville for our folks, it's a two-hour drive away. So it has to be in the rural areas, and it has to be coordinated with those telephone cooperatives. And my hope and my request is that we don't allow the

telephone cooperatives to have the same experience as the business people along Route 66 had, because rural America is too important.

So I'm asking you, are you doing, are you formulating and putting together a policy that will reach out, ARC as well as rural development agencies, reaching out to our rural electric co-ops to inform them, advise them, and to work collectively with them on being able to fund and act to provide funding for the expansion?

MR. ANDERSON: Congressman, thank you for the question. Obviously, as the USDA Rural Utilities Service, we work with the National Rural Electric Cooperative Association, and we have many borrowers in our electric program who are electric co-ops. We have attended every regional meeting of the electric co-ops this year and last year, the year before, and have talked--in fact, last year focused on the broadband program, bringing it out.

So we have been talking to the electric co-ops, and I know they have been getting out the message. We also have our own borrowers in the telephone infrastructure program, many of whom are cooperative borrowers, many of

whom, most of whom are small family-owned or small business-owned businesses.

We have been communicating with them through all of our regular channels, and we have our rural borrowers, our State directors talking about the broadband program as part of the "how to build a sustainable community." We have done the workshops that I have mentioned before as the jump start.

And we have our general field representatives, as we call them, both in electric and telecommunications programs, our field accountants, about 98 of them, who live in rural America, out of their homes, who are out there to work with these businesses, existing borrowers and potential borrowers, to help them. In fact, our telecommunications general field representatives, one of their jobs is to go out there and promote the program, and someone who wants to do an application, to work with them, to actually sit down, visit that applicant and work with them to fill it out.

Because we understand, as has been noted before, this is a complicated application. The technology is complicated. We have noted before that we are financing DSL, cable. We are financing wireless, licensed and

unlicensed wireless. We are financing fiber optic cable in rural communities. But one of the key components is finding a provider who knows, who can prove that they can do the job, and a provider who can be financially viable, who has a marketing and business plan that is tenable.

And we have been doing that. We have been working very hard to get that. Is there more we can do? There is always more that we can do, and we are continuing to look for ways to reach out.

MR. DAVIS: I yield back the rest of my time.

MR. ROESCH: May I make a comment here?

MR. GUTKNECHT: Yes, Harry.

MR. ROESCH: You know, the Appalachian Commission has done a lot of work with strategic telecommunications planning and aggregation, to get people at the local level to understand what the issues are. One of the things that we have carefully said to all of the people that start one of these endeavors is that you must invite all types of service providers, including the rural electric companies.

We know that, for instance, we have just funded a project in Mississippi in which the Tennessee Valley Authority, which is a power generation company, they had a

tremendous amount of dark fiber, and it was discovered. That project ended up being called "Megapop" and the primary purpose for Mississippi was to connect up that fiber optic line on that TVA pole and bring it around so they get high speed back to Memphis, down around through Birmingham, Alabama.

We have seen around the Cincinnati area and in north Kentucky, we have seen a lot of rural electrification stepping up. We have seen some of the public utility districts in the State of Georgia, in Dalton and in LaGrange, Georgia and elsewhere, where they are a multiple service provider: water, sewer, electricity, and gas. They have managed to work with their public utility commission to get them to be able to hang those telecommunications facilities on their water towers, on their lines, etcetera. We certainly feel that they are going to be a major player and can be. We have taken our steps to help them get into this business, so it is something that we are looking at.

MR. GUTKNECHT: John Kneuer has another meeting, and there may be others, and we are very appreciative of the quality of this panel of people who are here. So if you do

have to leave, John, we will certainly allow you to be excused.

Finally, Congressman Allen Boyd from the State of Florida. Many people don't think of Florida as being particularly rural, especially those of us who just go to places like Orlando or Miami. There are large chunks of Florida which are quite rural. Representative Boyd.

MR. BOYD: Thank you, Representative Gutknecht and Representative Stupak, for doing this. I apologize for being late. We had regional caucus elections, actually. I'm sure that maybe some of the others did, too. So I apologize. I will be very brief. I want to ask one question. Is Mr. Carlisle here?

MR. FURTH: He'll be back.

MR. BOYD: He'll be back? Well, bad timing, very bad timing.

[Laughter.]

MR. BOYD: Well, until he gets back, why don't we ask the question of the other panelists, because I was going to give all them a shot at commenting on this.

Mr. Carlisle, welcome back. Thank you. Where's the FCC when you need them?

MR. CARLISLE: I won't say.

[Laughter.]

MR. BOYD: I was not here in Congress when the telecom deregulation was done. I think it was three members of the Caucus that were here. Stupak, Gutknecht, and Peterson I guess were here. You were not? Okay.

Anyway, I was in the State legislature when we did the same kind of thing in Florida, and actually got involved. I happened to be fortunate enough to be on the committee that wrote the bill that deregulated Florida, which was sort of a precursor. That was in '95. I guess that '96 was when the dereg was done here, right?

The Universal Service Fund creation is what I want to focus on. It seems to me that that has been a wonderful tool in enabling us to, in telecommunications deregulation, to ensure that all areas have adequate and quality telephone service. Why are we, why is the FCC reluctant or timid about implementing or using that tool in broadband services? What are the impediments? Talk to me a little bit about that.

That is really the only question I have. If any others want to jump in, feel free to.

MR. CARLISLE: I think it is a very good question, Congressman, and it goes really to the heart of a lot of what we are talking about, with the really hard questions we are dealing with with regard to Universal Service today.

There is always two sides of Universal Service. There is the contribution side of it and there is the distribution side of it. You have got to get the money in, and then you have got to put the money out. On the contribution side right now, it is the contribution factor, the percentage that is added onto telephone bills for Universal Service, that is collected and then distributed by the Universal Service Administrative Corporation.

If you expand the services that receive, the types of services that receive the support, the money has got to come from somewhere, or you have to restructure how that support is distributed. So if you get beyond essentially primary telephone service for one or more lines, the more money that is distributed, you have got to make it up somewhere.

Now, this has been one of the criticisms of one aspect of our implementation of the Act, which has been that the Act has directed us to provide support for competitive

providers of services or competitive eligible telecom carriers, and we have designated certain CLEX and wireless carriers as eligible to receive Universal Service funds because they are providing service in these areas.

But again, that is an expansion of what you are supporting, and you are not necessarily bringing any more money in on the other side. On the contrary, because its based on interstate and international revenues which--leave aside VOIP and wireless for the moment--long distance is an incredibly competitive environment, and rates on that service are inevitably going to come down.

So even without these amazing technological developments, the base that you are collecting on is shrinking. So you have either got to figure out a way to get more money into the fund, if you want to fund broadband and other services, or you have to completely redo how you distribute the money.

MR. BOYD: Would it be a helpful tool in implementation of broadband services on a nationwide basis, solving this problem we're talking about?

MR. CARLISLE: Absolutely. I would think so.

MR. BOYD: And so it would be, I assume, some sort of tremendous administrative or legislative nightmare to figure out how to do the funding? You would have to include companies who were just doing broadband services, and not necessarily--

MR. CARLISLE: Well, actually on the contribution side it's probably easier than on the distribution side. I think, you know, we are going to be looking at contribution methodology in the spring, and seeing if we can move away from a solely interstate revenue based method to some other method that still shares out the burden more or less equally but is able to bring money into the fund on a more sustainable basis.

So certainly you can look at legislative solutions for contribution, but I would think the tougher nut to crack is actually how do you distribute it so it makes sense. What are the services you are going to support? Or do you want to base it on supporting services? Do you want to base it on supporting certain types of capacity, so you can basically do a sliding scale from 65 kilobits all the way up to whatever sort of capacity you want to support in an area?

Or do you want to give it to end users as opposed to companies?

There are many different ways you can go on this, if you are going to do a legislative solution. Right now, the way we can structure it is limited by the way the statute is written.

MR. BOYD: Thank you, Mr. Chairman. Thank you, Mr. Carlisle.

MR. GUTKNECHT: Thank you, Mr. Carlisle. I must say with that last answer you made our work even more complicated.

[Laughter.]

MR. GUTKNECHT: I had thought the problem was just raising the fund, and now, we now realize the problem is also spending it.

Listen, I want to thank this panel very much, on behalf of all of my colleagues, those who were here and those who have staff around the room that have been taking copious notes. I would ask that if there are additional questions for anyone specifically, and if we could write you those questions, if you would be so generous as to share

answers with us about other issues that may come up as we go forward.

But again, thank you very much for some of you coming from significant distances to be with us here today, to share your expertise. Thank you very much.

We will take two minutes here and we will bring in the second panel, and we will hear from some real folks from out in the country who really deal with some of these problems. Again, thank you.

[Recess.]

MR. GUTKNECHT: Let me ask you again to take your seats so we can the second panel going, and especially Members of Congress, if we could get you to kind of come back and take your seats so we can get started again.

As I say, the people who are testifying, and Representative Osborne corrected me, the first panel were people as well. What I should have said is people who deal on the front lines of a lot of the problems are on our second panel.

The first gentleman I am going to introduce is Rob Hammond. Now, Rob actually is wearing two hats today. Rob is not only the mayor of Blue Earth, Minnesota, but he is

the president and chief operating officer of BEVCOMM, which is the Blue Earth Valley telephone company, and one of the more progressive rural telephone companies that I have in my district.

And so I think Rob brings some very interesting perspectives, and I think--well, I won't speak for him, but I think the town that he is the mayor of is a great example of sort of the little town that rolls up its sleeves and gets things done. So we are delighted to have Mayor Rob Hammond from Blue Earth, Minnesota with us. Thank you.

MR. HAMMOND: Thank you, Congressman, and thank you, members of the Rural Caucus. As was indicated, my name is Rob Hammond, and I am associated with BEVCOMM, which is five telephone companies comprising approximately 14,000 access lines. Our company has been in business over 100 years, and we are presently being managed by the fourth generation of the Eckles family.

In addition to wireline services, we are a provider of 4,500 dial-up customers and 2,800 DSL customers. I believe we were one of the first rural exchanges in the State of Minnesota to begin offering DSL, beginning in the late 1990s. We also have numerous other wireline interests-

-wireless interests and fiber optic facilities which we use for transport and leasing.

A little bit about the city of Blue Earth. First of all, just in case you are wondering, we have two stop-and-go lights, and we are a little bit larger than the other community you talked about. But we are the county seat in a county of 1,500 people. The county has lost approximately 10 percent of its population over the last 10 years, and we have in our county five independent telephone companies, three of which are owned by our company and two other independent telephone companies that are family-owned companies.

With the challenges that we have seen in the convergence of wired, wireless and cable services, and our experiences with the 1996 Act, there is little doubt that we need to take a serious look at the Telecom Act, and I don't envy Congress with the job that is in front of you. As we look at the new law, please appreciate the importance of small, independent telephone companies.

As an example, in our community 75 people are employed through the telephone industry. We also have approximately 20 people that have been brought to our county

in recent years, to new jobs, which may not sound like a lot, but in a county losing its population, 20 jobs has been outstanding. These have been young college kids who came from our community, who instead of moving to other communities, have come back to be involved in internet and computer-related services, telecom and a number of services associated with that.

Probably as important is the fact that we have employees that serve on our city council, hospital boards and school boards, are firemen, are first responders, and they are also active in their community. This is very important when you consider the fact that should our five telephone companies be owned by one telephone company in Fairbault County, they would all be replaced by a deposit box and call forwarding. It is a harsh fact to realize this, but to a large extent in many ways we are some of the largest employers in our communities, and the communities are beneficiaries of our involvement.

We have heard a little bit of the discussion about universal funding. Our company serves about 750 square miles, which I am sure compared to some of the companies in Nebraska and further west in southern Minnesota, that is

small. Most of our customers are small farmers, farm operations, small towns of less than a thousand people. Universal Service Funds are real important for us to reach many of those people, and without those funds, how and in what manner we provided our services would be based on how much money we could get out of them as opposed to their need, their benefit, and in many instances their way of communicating with society.

We have heard some discussion about primary lines. I can't say enough to say that primary lines is not the answer, at least in rural Minnesota and the rural parts of our country. We are supporting a network, not a series of lines. These lines are a part of a network that, whenever we look at funding, we go out and look at how much we can spend to take care of the needs of these customers and provide them with low-cost services.

I don't think it would be a stretch to say that without service going to many of our customers, wireless and voice over internet would also suffer, because they wouldn't be able to reach them. We need to look at a service, a universal service program that looks again at the networks, and I think it is safe to say that even the competitive

exchange carriers that provide service in our areas would also say they would rather have it based upon the network and not on the individual customers.

We are also facing some other changes that have come about, and in this situation it may be unique to our State. Those situations are a problem that we know as phantom traffic. We don't know exactly what the situation is or how it is occurring. We have got ideas. But we are beginning to transport more and more traffic which we do not have identity for. We don't know whether it comes from internet providers, wireless providers, or other providers.

But I think in any legislation we look at at the time, we need to look at the need of making sure that those who use the network pay for the network. This is a concern that is maybe unique to Minnesota and Iowa, where we have exchanges, but it has become a serious problem that we have to face.

I can go on in a number of other areas that are probably going to be covered by other speakers today. I would also add that it is very important that we look at, in addressing the future telecom law, that we level the playing field in such a manner that telephone companies, whether

they are wired or wireless, cable providers and internet providers are basically subject to the same regulation. I think it is a little bit difficult when a company such as ours is unable to change rate plans, whereas a wireless provider can change rate plans and raise them to whatever level they want, or lower them, whatever the case may be, without the process of going through the PUC in our case in the State of Minnesota.

And, finally, while we have had discussions about the importance of USF and its need for rural Minnesota, I would like to add that I think one of the things that is missing in rural States and we need more of, and I consider us very fortunate to have it in Minnesota where we have about 1,600 telephone companies, I think we need to bring back more and more of the ownership of telephone companies to the local level.

The owner of our company has been in the business for about 30 years. Every morning he goes for breakfast at a local cafe. When DSL came out, he was hit up about the needs for DSL. When there's problems, he is hit up about the needs for service. And a lot of that was brought about

because the community more or less cornered him in a situation where he had to address it.

I would love to have Charter Communications have breakfast in Blue Earth, Minnesota. If for no other reason, we could talk about cable service, but more importantly, they could help us provide maybe a little money towards a pool for a building. We have yet to meet anybody from Charter. They live in Albert Lea and Rochester.

We are not afraid of competition. As an independent telephone company, we are more than willing to get involved in the battle for customers. We have lost access lines, we have lost minutes. We are changing to meet the demands of the industry, and we look forward to it. But we would like to look forward to it in an industry that is less regulated by both State and Federal laws and regulations, and have an opportunity to meet our opponents sometimes in a situation where we call it a level playing field.

Thank you.

MR. GUTKNECHT: Thank you, Mayor Hammond.

Next I am going to yield to my colleague from Pennsylvania to introduce the next speaker.

MR. PETERSON: Thank you very much. It is my pleasure to introduce G. William Ruhl, the chairman and CEO of D&E Communications in Ephrata, Pennsylvania. Now, that is not in my district but it reaches up and serves the edge of my district, and it is a company that has been in business since 1911. He has 43 years of experience in the field, and I am looking forward to what he shares with us today, because he not only is an active participant in serving rural areas but he has been at it a long time. So we look forward to your testimony.

MR. RUHL: Thank you, Congressman. Thank you, Mr. Chairman. Let me thank the Congressional Rural Caucus and the Telecom Task Force for holding this hearing. I appreciate the opportunity to appear before you today and discuss the challenges facing rural America as Congress begins considering legislation needed to update our Nation's telecom laws and transition our industry from a government-managed market to a market-based competition.

As mentioned, I am with D&E Communications that is headquartered in Ephrata, Pennsylvania. I am not sure that many of you have heard of Ephrata, Pennsylvania, and it is typical of the kinds of towns that we serve. There is a map

showing our territory attached to my testimony. We have three rural areas that we serve. You will see the names of the major towns in each of those locations: Ephrata, Birdsboro, and Lewisburg.

So we truly do serve some rural areas in Pennsylvania, and we are quite proud of it. Our founder back in 1911 founded the company because in fact what was happening, the larger companies didn't provide service in some of those rural areas at that time, and he finally decided, he came home and told his wife, "I'm going to start my own telephone company, and it's going to provide good telephone service."

And that has been our mission over the years, is to provide excellent telephone service in the more rural areas of Pennsylvania. We have been at it for 93 years. We see it as quite a challenge, providing service in those rural areas. Today D&E provides service in territories that have at this point 141,000 access lines in 18 exchanges, most of which are less than 10,000 lines.

These rural areas have historically provided very advanced telecommunications services. Our company was one of the first to provide 100 percent digital switching with

fiber optic self-healing rings, which are a way to provide very reliable service. We are proud of the fact that we provide DSL service, the digital subscriber line service that you have all heard about earlier here. They are available to 95 percent of the customers in our RLEC territories.

So, Congressman Peterson, we did follow through on Chapter 30, and we are--actually I have my vice president of operations here, and he would attest to the fact that we could get 1.5 megabyte service, as was promised, out to any of our customers within two weeks. Now, of course, we are going through that again, and they are saying the date is 2008. We have no problems with that.

We believe, though, that eventually what we need to do as a rural company is build fiber to the home. We feel that in order to provide advanced communications in the future, fiber is going to be the way to do it. You have seen some of the announcements by some of the larger companies, that that is the direction they are going in. And we do feel that that is necessary, but in order to do so, our rural companies need to be financially able to do that.

I would like to point out, we talked about access charges and so on, at this point 50 percent of our RLEC revenue is derived from network access. The majority of that revenue, they are access charges that are paid by other carriers, and just 8 percent for our company comes from the Universal Service Fund. This is part of the reason that we have been able to provide advanced communication to our customers in small towns and municipalities.

D&E and other rural companies have put significant investment into their networks, and we continue to maintain and build more modern networks, like fiber optic networks, in the rural areas. As smaller companies, our networks are up-to-date, but we really need to be fairly compensated for the use of those networks.

Rob mentioned that. Yes, it is a problem as we go forward. You hear things like the voice over IP companies, they are campaigning for the fact that they shouldn't have to pay access charges and so on. Well, we just can't have viable networks in the rural areas if that is going to occur.

We need continued investment in our wireline infrastructure, and this can be spurred by the elimination

of government-managed competition, which will allow us to attract the capital needed for consumers and to provide a rich choice of voice, video, and data services.

The wireless carriers and the cable TV companies and the voice over IP and satellite companies are all attracting capital because they lack some of the regulatory constraints, and they are our competition. We don't need to have managed competition by government. They are able to offer service free of onerous regulatory requirements, such as the laws on what services we offer and what price we offer, as Rob had mentioned.

Some competitors don't even provide E911 services or the access by law enforcement agencies, something called CALEA, or in many cases they don't even contribute to the Universal Service Fund. Like so many other aspects of our current regulatory environment for telecommunications, this puts the traditional providers of universal service, primarily those that have made the investment in wireline services, at an unfair disadvantage in our competitive marketplace.

We believe, as we move ahead with modernizing our network to provide a wealth of broadband services, we need

regulatory parity and freedom to compete with other providers of telecommunication services.

Today, some large telecom companies are pushing fiber to the home, as I mentioned, but you see that primarily in the metropolitan and suburban areas. I think this was mentioned earlier. Is there a danger that rural areas will be left behind?

Rural local exchange carriers have for many years provided universal, reliable, and affordable service to their customers. The telecommunications services that they provide are the backbone for economic development in those regions, again as Rob mentioned. In addition, these small telecommunications companies are viable members of the community--some of them are even mayors--and through generous financial support, significantly improve the quality of life in their communities. Our company, for instance, one of our former presidents established a charitable foundation that last year provided more than $1.1 million to support social and educational needs of our communities.

We believe that the present Telecom Act must be updated to reflect many changes that have taken place in the

telecommunications industry and the consumer marketplace over the last decade. We now know that the telecommunications world is much more complex. We look forward to working with you on legislation that will promote advanced communications to our rural constituency now and in the future.

Thank you very much.

MR. GUTKNECHT: Thank you, Mr. Ruhl. I will yield to my colleague from Nebraska for the next introduction.

MR. OSBORNE: Thank you, Mr. Chairman. I would like to at this time introduce Mick Jensen. Mick is the CEO of Great Plains Communications, Blair, Nebraska; attended the University of Nebraska, so he has got to be a good guy. He might have played football, but he is before my time, which is almost unbelievable.

[Laughter.]

MR. OSBORNE: He is a past chairman of the Nebraska Telephone Association and a great many professional organizations, and we are just pleased that Mick would take time to come out here and talk to us.

MR. GUTKNECHT: Mr. Jensen.

MR. JENSEN: Thank you, Congressman. And Coach, I think I came to Lincoln the same year you and Bob Devaney came, 1962. That is a long time ago.

Mr. Chairman and members of the Caucus, thank you very much for this opportunity. I am not quite as prepared as I should be. I did bring maps, but not enough for everybody. Now, if you think you have got rural stuff, Coach Osborne can tell you what rural really is, because most of our stuff is in his territory.

Great Plains Communications is a fourth generation family-run company that provides telecommunication services to almost 33,000 customers across 13,250 square miles of rural Nebraska. We use 1,400 miles of fiber optics and 12,500 miles of copper, with an average density of less than 2.3 customers per mile. Our normal capital construction budget is nearly $6 million a year. Rural providers like we are serve 7 percent of the Nation's access lines but cover 40 percent of the land mass.

I appreciate the opportunity to participate in these forums and to shed light on key policy issues that really matter to the future of telecommunications in rural America. We are all aware of the importance of high

quality, reliable telecommunications to our customers. It is not only important to their personal lives, it is in fact part of the economic viability and survival of rural areas.

As an example, Wausa, Nebraska, population 636 people, 30 new jobs created thanks in large part to Great Plains Communications infrastructure. Nebraska Department of Health and Human Services recently located a call center in that community.

In nearby Bloomfield, Nebraska, population 1,126, Great Plains Telecommunications infrastructure was instrumental in the decision by First National Bank of Omaha to locate a credit card call center employing 45 people.

The creation of even one job in these communities is equivalent to hundreds of new jobs in a major metropolitan area. I am told this call center in Bloomfield is equivalent to 12,000 jobs in Lincoln, Nebraska. And I might add that for every applicant in either one of those two call centers, for every job we had 30 applicants, and many of them were college educated, so they had driven a long way just for that job opportunity.

So the link between our business and the well-being of rural Nebraska is very apparent. What maybe isn't

quite as apparent are the Federal and State policy drivers that make investment in telecommunication services, especially access to broadband and IP services, even possible in such areas, namely our Universal Service programs, including the State and Federal Universal Service Funds, and sufficient cost recovery from other service providers that use rural networks to serve their customers. Each of the programs is the subject of much discussion here in Washington and in the States.

I want to share a couple of thoughts on these subjects in my brief prepared remarks, as universal service, IP services, and compensation between carriers are all very interrelated. Customers in rural America want and need broadband access and IP services just as much as customers in the Nation's urban areas, and in fact the law requires that they get them. The question is, how do companies like Great Plains Communications continue the progress we have made? I think I have some answers to these questions.

Number one, all carriers, including IP service providers that use other carriers' networks, must pay for that use. Especially in rural areas, much of the network

that is in place today exists only to serve the voice and data traffic of other companies.

Number two, Universal Service programs must evolve to recognize the infrastructure needs of an IP world. Today's Federal USF is entirely based upon services in the circuit-switched world. While circuit-switched services will continue to be important for years to come, it is also essential that Universal Service must encompass the costs of an IP world.

Number three, finally, intercarrier compensation reforms must be made to ensure that all services--IP, circuit, wireless, wireline, interstate, and intrastate--are on equal footing and paying comparable rates for their use of rural networks. The FCC and the States have to work cooperatively toward that end.

Great Plains Communications and many rural companies are working hard on reasonable solutions to these issues. It is critical that we get Congress to understand what is at stake because, as the citizens in places such as Wausa and Bloomfield, Nebraska can tell you, universal service and telecommunications infrastructure really do matter.

Thank you. I look forward to your questions, and if I might be permitted one advertisement here, we recently submitted a plan to the FCC for intercarrier compensation. It can be found at aricteleco m.com, and we would welcome your comments and criticisms and discussions of that plan. Thank you very much.

MR. GUTKNECHT: Thank you, Mick. I will yield to my co-chair for the introduction of the next panelist.

MR. STUPAK: Well, thank you. I would like to introduce Mr. Bill Roughton. Bill has more than 20 years of experience in the telecommunications industry. Most of his experience has come as a member of a start-up team rolling out new services to the public. Beginning in 1993 when he joined Bell Atlantic Mobile, he has helped to shape the regulatory environment for cellular radio service, personal communications services, and other radio-based communication services. In 2004 he joined Centennial Communications, a wireless company serving parts of northern Michigan, as its vice president for legal and regulatory affairs.

Mr. Roughton, if you would, please?

MR. ROUGHTON: Thank you, Mr. Stupak, Mr. Chairman, members of the Caucus. I am delighted to be here

to discuss the issues related to service, telecommunications service, in rural areas.

Centennial Communications is a leading regional wireless and broadband telecommunications provider, and we serve over a million customers in markets with a net population of about 17.3 million people in the United States and in the Caribbean.

In the United States we are a regional wireless provider in small cities and rural areas in two geographic clusters that cover about 6.1 million people. Our Midwest cluster includes parts of Indiana, Michigan--including the counties of Arenac and Iosco in Mr. Stupak's district--and a piece of Ohio, and our Southeast cluster includes parts of Louisiana, Mississippi, and Texas.

In Puerto Rico, our Caribbean-based service area, which also includes the Dominican Republic and U.S. Virgin Islands, we are a facilities-based, fully integrated communications service provider offering both wireless and broadband services to businesses and residential customers.

To serve our mainland markets, we have constructed a high quality digital wireless network that brings the same quality of service and range of products to these rural

areas that metropolitan area customers enjoy today. For example, we launched GSM/GPRS service in our Midwest cluster in November 2003. GSM/GPRS offers faster data services and makes available more attractive multifunctional handsets, such as camera phones that you see on television. We also recently completed a GSM/GPRS service upgrade in the Southeast cluster and launched service there this month.

In addition, our networks are positioned to bring even more cutting edge services to these rural markets. Wireless data is among the fastest growing areas of the mobile telecommunications industry, and we have upgraded our network to take advantage of this growth area and have begun offering a range of messaging services to our customers, including text messaging, short messaging, multimedia messaging, and broadband services. In addition, our customers can currently access the internet directly from their handsets, and we expect to offer our customers the ability to download games and ring tones.

Of greater importance is the fact that Centennial, like some other rural wireless carriers, is effectively the carrier of last resort in some areas. For example, in a remote area of Louisiana, some 80 homes have never had

telephone service at all. Sometime during the first quarter of 2005, these 80 homes will have access to the modern telecommunications services that I have just outlined, through an extension of our wireless network.

The ability of rural wireless carriers like Centennial to bring these services to rural areas hinges upon their continued access to the Universal Service Fund. Remote areas often lack service simply because it costs so much to serve them that a service provider cannot expect to recover the investment it would incur to serve that remote area. Universal Service Funds make it possible to do so. And in the case of our coverage extension into Shaw, Louisiana, where those 80 homes are located, that would not have been possible without access to Universal Service Funds.

From a broader perspective, restricting wireless carriers' access to Universal Service Funds will deny rural customers the ability that consumers in metropolitan areas take for granted, and that is the ability to choose the telecommunications products and services best suited to their needs. This access to comparable telecommunications

services is guaranteed to consumers by Section 254 of the Communications Act.

Like the rest of the country, rural consumers want the advantages that wireless communications offer. Nationally more than 50 percent of the American population has a wireless phone, and in 2003 wireless revenues exceeded wireline revenues for the first time. Increasing numbers of consumers have cut the cord or are using wireless phones as their primary telecommunications medium.

Rural America is part of that trend. A 2004 study by the National Telephone Cooperative Association showed that some 84 percent of rural teens use a wireless phone, and that about 20 percent of them rarely use a landline, and some 14 percent among them never use a landline telephone.

In Wyoming, an AARP survey revealed that 66 percent of the elderly in that State use a mobile phone, and that about 47 percent of them have or are considering switching to wireless for all their telephone needs. The reason for the trend is obvious. Wireless services are a convenient, cost-effective means of communication that offer safety, mobility, innovative services, and broadband access.

Wireless technology is also a good buy for the Universal Service Fund because it is so often the most cost efficient way of serving customers. In urban markets, wireless carriers invest on average about $920 to serve a customer, while a landline carrier will spend about $2,500 a customer.

In rural areas the difference is even starker. $1,734 is the national average per wireless line in rural areas, as compared to approximately $7,000 for a local exchange carrier in a rural area. It also takes four times as many employees to serve 10,000 landline customers as it does to serve the same number of wireless subscribers.

These cost differentials produce markedly higher operating expenses for the local exchange carrier. Indeed, since 1966, 91 percent of the increases in the Universal Service Fund have gone to the local exchange carriers. Consumers throughout the country and the economy as a whole will benefit if the subsidy system is right-sized.

There is one final element in the ability of rural consumers to exercise the same freedom of choice as urban consumers, and that is local number portability. In the past, carriers owned telephone numbers and consumers were

held hostage to their current service provider unless they gave up their telephone numbers.

Today, consumers have the right to switch service providers and keep their numbers. This is true for all Americans, except for customers of some rural local exchange carriers who have convinced their State commissions that the expense of the conversion to local number portability is a more serious issue than the right of the consumer's choice.

Denying rural consumers the ability to port their phone numbers aggravates the urban and rural divide. To ensure that rural customers have the same freedom of choice in their means of communication that Americans living in metropolitan areas have, Centennial urges the following policy:

First, all carriers should have competitively neutral access to Federal and State Universal Service Funds. Universal Service and competition are not incompatible. Universal Service policies should respond to rural needs and not to protection of groups from competition. And, finally, local number portability is an enabler of competition and rural consumers should enjoy the benefits of local number portability.

Thank you very much. I appreciate your inviting me here.

MR. GUTKNECHT: Thank you, Mr. Roughton.

I must confess I have a very important meeting I have to go to myself, and so I am going to yield to Mr. Stupak, and I will ask my staff and other staff here to take good notes. Thank you very much for coming, and I apologize, I have to excuse myself.

MR. STUPAK: Just briefly, Mr. Chairman, I am going to submit for the record, so it is available for everybody, the National Cable and Telecommunications Association recommendations for change for the Universal Service Program, the rural broadband access loan program. I will submit it for the record. We will all have copies.

MR. GUTKNECHT: Without objection.

MR. STUPAK: Thanks. A couple of questions, if I may, Mr. Roughton. As you know, my district is very rural, and cell service, it doesn't matter who provides it, is still pretty much unreliable. Once you leave a town of 5,000, once you are outside the city limits, it just doesn't work, and there really isn't much incentive to build a lot of cell towers and they are pretty expensive in the rural

areas, because there are just not that many customers that would use them.

What can Congress do to provide incentives to increase the quality of cell service in rural regions, or are we just going to be stuck forever? Actually, even in my home, I'm right on the city limits of a town of 10,000, if I'm in the front part of my house, my cell phone works. If I go to the back part of my house, my cell phone doesn't work, and it is just so frustrating. So what should we be doing to try to increase cell service in rural areas?

MR. ROUGHTON: I think it is the same issue that the wireline companies faced and still face in terms of line extension, and it is primarily an investment issue. It costs money to build the facilities, and the companies need to make a return on that in order to stay in business. Universal Service Fund has been a subsidy that helped the carriers bridge that gap, both on the wireline side and the wireless side, and I think Universal Service Fund has to be targeted in accomplishing that goal.

MR. STUPAK: You are in a number of different States. Do you find any difference? Even Mr. Jensen, on your map here you show you are on the border of another

State. Does that cause any problems in providing some of these services?

I mentioned my own home. I am in Menominee, Michigan. Okay? Marinette, Wisconsin, my service is usually out of Wisconsin, not out of Michigan, even though I am a Michigan resident. And we see some of these problems here with different regulatory schemes, which in a way should produce some competition. In a way it actually is sort of a disincentive to do it. Both Menominee and Marinette, we are big cities. We are 10,000 people.

MR. JENSEN: When our exchange areas overlap into another State, we usually find that if you don't have a significant presence, which you can see we don't--

MR. STUPAK: Right.

MR. JENSEN: --those commissions generally defer to the State commission that you have the most critical mass in, which would be Nebraska.

MR. STUPAK: Nebraska for you.

MR. JENSEN: And so once in a while we do get stuck with a little more paperwork than we would like, but generally they don't hamper us too badly.

I would like to make a comment on universal service and wireless and so forth.

MR. STUPAK: Sure.

MR. JENSEN: I heard the word "subsidy" used, and in my mind that is a misnomer. We have a social contract, we wireline companies. We are the carrier of last resort. We have certain performance standards that we must adhere to, and if somebody has a need for service far off the beaten path, we are required to serve them. The wireless people are not, and therefore there is a huge differential between what we do and what they do. And to say that the Universal Service Funds are a subsidy, in my opinion is a vast overstatement and not accurate.

MR. STUPAK: Anyone else care to comment?

MR. ROUGHTON: I would just say that with regard to the State commissions, we have service areas that overlap across State boundaries, and as the gentleman before me said, yes, we do get hit with extra paperwork from time to time because of the difference in regulations between the two, but it has been my experience that generally the State commissions are willing to work with the carriers in order to harmonize differences and make sure that customers on one

side of the frontier or the other are essentially getting the same quality of service that the folks on the other side are getting.

MR. STUPAK: You both mentioned the Universal Service Fund, and the FCC testified a little earlier that they will be looking at it to make some changes on it. My concern is that they are not going to go far enough to even it out and help the rural areas to continue to provide service.

You know, the Congress has a bill. It is the Anti-Deficiency Act. We could probably go along those lines and pass that, and maybe that would resolve it. Any questions or concerns on that?

MR. ROUGHTON: No.

MR. STUPAK: No? Mr. Jensen?

MR. JENSEN: The Anti-Deficiency Act is creating a horrible problem for USAC. There are schools and libraries and hospitals right now that have had funding approved for certain prospective services that they need, and they can't get the funds because of the bookkeeping change fostered by the FCC, apparently in an effort to watch out for some skullduggery that has happened in the past. But as a result

of this, this change by the FCC, the entire Nation right now is being held hostage, and I know that USAC is trying their best to get these monies out but they are also forgoing a huge amount of interest, that they can't leave their funds on deposit.

MR. HAMMOND: I would add, part of not our telephone company but our educational system in our area is a part of a large group, and this is an area that, panic-stricken might be a good word for it. They don't know what to do, they don't know how to plan for it. Purchasing services who are dealing with any kind of telecom issues that have to do with this have basically set them back. I know they have begun the process of lobbying very hard from their side, because they need it greatly.

MR. ROUGHTON: I agree it is a problem, and it would be very nice if the Anti-Deficiency Act problem could be solved.

MR. STUPAK: Thanks for your comments. Mr. Osborne, questions?

MR. OSBORNE: I just have one. I know the hour is growing late. But I would like to start out with Mr.

Jansen, and if any of you want to offer an opinion, you certainly can.

I believe there was an article in USA Today, maybe just yesterday, and the headline said, "Fees paid by all phone customers help rural phone firms prosper." And the first sentence said, "The regional Bell phone giants are struggling. AT&T and MCI are on life support. But tiny XIT Rural Telephone Cooperative is humming along nicely." And then they go into some of the financials about this little telephone company out in the Texas panhandle and how they are prospering.

So I just would give you an opportunity to address this particular article--I am sure many of you saw it--and see if you have any reaction to it, any thoughts that might enlighten the group here.

MR. JENSEN: Thank you very much. That is a good question, and I think this is a good forum to bring this out.

I have known Mr. White and the family for probably 20 years, Congressman, and I have always considered them to be very good, reputable management people. The first time I

read the article, I was a bit dismayed, and I was quite honestly a bit angered.

But the more I thought about it and read it, I am sure the author, and I forget his name, has tried to take a very complicated subject and write a knowledgeable article about it, and I am sure some of it is left on the cutting room floor, as is wont to happen when somebody writes a letter that is too long for their editor.

What I would say is, it really points out what a good job small companies have done in managing their business plans and their finances, in light of all of the uncertainties that are with us today with Universal Service. Many people say long distance minutes are decreasing and therefore our access charges are decreasing. I don't believe the minutes are decreasing as much as they are being redistributed, and if we get the opportunity to have all providers contribute to the Universal Service Fund, we will see that those numbers are back where they should be.

But back to the article. It leads you to believe and try to feel sorry for the larger RBACs, perhaps, and for AT&T and some others. I think if you look back in the business plans of some of those people, you will find that

they weren't the best to start with, and some of them were very poorly executed, and perhaps today that they are suffering from some of those mistakes of the past.

I think of AT&T, who wanted to be a computer company. Then they wanted to be a cable TV company. And now they are trying to be a long distance company again. My friends Quest in Nebraska, when Mr. Nacho was there, I think he had a whole different business plan, and I think Mr. Minnebark today is trying his best to bring them out of that hole, but there are some extenuating circumstances in the past.

So all in all, I think this article should be answered by someone in the industry because it's not entirely accurate, but I do believe the author did try.

MR. RUHL: I would just like to weigh in on Universal Service. The fact is that it should be pointed out that a lot of the Universal Service Funds have been put to very good use. I don't know all the companies that were mentioned in that article. Maybe there are some that have misused it, and unfortunately it is kind of like a few bad apples have created difficulties for businesses, and I don't think that should really be the case.

What really needs to be done with the Universal Service Fund as I see it, we need to manage it. At least we certainly, I don't think, need to have the Universal Service Fund fund competition within an area. We should look at the funds to go to, as Mick mentioned, that carrier of last resort in an area, the one that is truly providing the service to customers where we need the ability to get to those customers, and not then at the same time fund competition with universal funding in those areas.

What I see with Universal Service, the Universal Service Fund could gradually reduce over the years as competition moves into our industry and we are able to use natural competition to provide advanced communications. So over the years, as companies can get better, as we can improve our networks, as we become more efficient, the need for universal funding should go down, and if it is well managed I think we can approach those goals.

MR. HAMMOND: I had a brief opportunity to read the article before I came in. I guess we always have situations where there is abuse to any program. I would add that in my--and I know Jimmy White, and I have met him, and I am impressed with the job he has done with his telephone

company in Texas--if you went around and you met with the telephone companies and the co-op companies that are getting Universal Service Funds, they are not laundering it for anyone else. Most of them put it back into their community in the form of networks, better facilities. Their customer is their number one desire.

And in those situations, if there has been abuses, I would have to say in Iowa and Minnesota where we have exchanges, I would be surprised to see it, and if it is, it's on a very, very minor level and it has been done for the good of their customers. Abuse of a situation like that sometimes paints it with the wrong color, but this has been a program that has been very, very important to rural areas of our States. And I would add, without programs like that, the thought that we would have had the level of DSL that we have in Minnesota and Iowa today, I don't think would have taken place.

MR. JENSEN: If I could have one re-entry for 30 seconds, there are 1,100, approximately, rural carriers, and they talked about three or four here, so I think they are trying to paint us with a pretty broad brush.

The last thing I will say is, I found Mr. Stanton's comments somewhat interesting with Western Wireless, in that he is one of the largest recipients of Universal Service in the country, and without our Universal Service-provided underlying networks in Nebraska or South Dakota or anywhere else, he would be dead in the water, because he can't get his calls spread around the country the way he needs to. And I thought his comments were somewhat interesting, given the fact that he has benefitted from Universal Service so much.

MR. OSBORNE: Excuse me. I think I have a problem with my voice and also with time, so I will yield back. Thank you.

MR. STUPAK: Well, thanks. Let's go to Mr. Boyd, and then Mr. Peterson to wrap up.

MR. BOYD: Thank you, Mr. Chairman. I will be very brief.

I want to direct my question at you, Mr. Roughton.

MR. ROUGHTON: Yes.

MR. BOYD: And you spent a good bit of time in your testimony talking about Universal Service Fund.

MR. ROUGHTON: Yes, sir.

MR. BOYD: And I was very interested in that. You heard the question and the response to that question by Mr. Carlisle earlier, about the Universal Service Fund and broadband?

MR. ROUGHTON: Yes.

MR. BOYD: Would you care to comment on that, and how we might solve some of those problems that he laid out? As I understood it, he said there was less of a problem about how you collect the money than there was in the distribution, or certainly an equal problem.

MR. ROUGHTON: There's problems on both sides. My understanding is that information services as such are not eligible for Universal Service support at the moment. It is essentially a voice-based support system.

So, for example, when we upgraded our networks and rolled out the GSM overlay, along with that there was some hardware investment we made in order to provide broadband access. Well, we cannot assign Universal Service Funds to that piece of the investment, even though that is part of the upgrade that we did. The investment was essentially on the voice part of the upgrade, not the digital network.

So, you know, if the Universal Service Fund is a mechanism to accomplish a social policy, and the social policy is to bring telecommunications services to difficult-to-serve areas, which tend to be the rural areas, then the question is, how do we adopt this mechanism to serve the changes that have taken place with the technology in communications?

Twenty years ago when I joined Bell Atlantic, most people still had rotary telephones on their desk, and there were still stepper switches making calls across the country. That is like high button shoes. It just doesn't exist anymore. And the system that we have hasn't kept up.

So we have a problem on the contribution side because of all the changes that are taking place in long distance, and then we have a very complicated problem on the distribution side because we have new players, new technologies, and new services that people are offering. Should there be a subsidy for picture phone level? Probably not, but maybe. I don't know.

MR. BOYD: It would take different, more flexible rules.

MR. ROUGHTON: Yes, and it is not going to be an easy thing to do because these subsidies have been around for a long time, either implicitly or explicitly, and it is very difficult to unwind them, as the last 10 years have shown.

MR. BOYD: Any others want to comment or add anything to that?

MR. HAMMOND: I would add I also serve on the Midwest Wireless board, which is a wireless provider in southern Minnesota and northern Iowa, serves about 350,000 customers. And in our case, too, and I think a little bit of it is just the desire to comply, but we go out of our way to make sure that when it comes to USF funds, that they go to areas that are only eligible for it, almost to the point where we go to the extreme. So in many instances I think some of the carriers, again going back to the question about USF funding, are very careful not to abuse the situation and make sure it works.

MR. ROUGHTON: And I would just say that it is a condition of our certification in some States that we actually file quarterly reports as to where we have spent the USF funds. We have the money to be spent in particular

study areas, and they have to be spent there, and we report that to the State commissions in three or four jurisdictions every quarter.

MR. STUPAK: Mr. Peterson?

MR. PETERSON: Thank you very much. I want to thank all of you for participating today. I really, really appreciate it.

Does somebody have a plan? Is there a plan in print that puts everybody at the table, contributing to the fund? Because it would seem to me that if all telecommunication providers were putting in, it wouldn't be a very big fee, because presently we are just doing interstate and international, right? Long distance. Is that who is paying into the fund?

MR. JENSEN: That is correct.

MR. PETERSON: But if everybody paid into the fund, wouldn't it be minute? To bring enough money in to help fund the adequate--

MR. JENSEN: I would urge you to go to arictelecom.com and read our plan.

MR. PETERSON: Okay.

MR. RUHL: I just want to mention some States do have Universal Service Funds--

MR. PETERSON: Of their own. Any State that particularly does it good, does the best?

MR. JENSEN: I don't know about best, but Nebraska is pretty good at it. We were one of the first. We rebalanced our rates so that we were level across the board, across the State.

MR. PETERSON: I have heard about the wiring in Nebraska that has helped them attract businesses. Not enough, I guess, according to Tom, but they can always use more.

I guess I would like your thoughts. You know, I cover 20 percent of Pennsylvania, a big rural district, and when I'm driving, half the time I can't use my cell phone, no matter which service is have. Some areas if I have Cellular One, some if I have Verizon or whatever. But no matter where you go, you know, half the time you can't use it.

But we have a unique situation in Pennsylvania, that I don't think a lot of people are aware of. We have a State that over the last 15 years has constructed close to

500 towers. Every State police barracks has a tower. Every Penn DOT office has a tower. Every Forest Service office has a tower. Every Game Commission office has a tower. Every Fish Commission office has a tower. And we have towers for the Emergency Medical System that I helped create 15 years ago, so hospitals can talk to ambulance services.

Now, we have those 500 towers, and I am told that somebody was influential--I don't know when, I have not seen the law--but I am told that somebody was influential at the Commonwealth in having legislation that says that the State can't rent them out.

Now, isn't that a huge asset sitting, that the Commonwealth of Pennsylvania could have some incentive for companies to use their towers? I am told they reach 95 percent of Pennsylvania's population. Isn't that a huge potential to expand all kinds of telecommunications services, if the State would harness it?

I would be interested in each of your thoughts on that.

MR. ROUGHTON: I would just say that generally wireless carriers currently don't like to build towers. They like to go on existing towers, for a variety of

reasons: fewer environmental problems, fewer zoning problems, the whole thing. So if the Commonwealth has towers that are already erected and have space on them for antennas, I would imagine wireless carriers would be interested in going there, and it would be a source of revenue for the Commonwealth.

MR. PETERSON: Anybody else?

MR. RUHL: We are not in the wireless business now, but we were, and building towers and so on, there is quite a science to it. It could be--and I would think that many of those towers could be used by wireless companies.

They would also have to be making the additional investment to get the constant coverage in those areas that you are talking about. They would have to see if they could make a business case out of that. I think that is one of the main problems, is again the sparsely populated area and how many people would make calls and what revenues they would get and so on.

MR. HAMMOND: I would agree with that. I know in the situation of Midwest Wireless, that when we look at siting for cell sites and the like, that we spend an awful lot of time looking at numerous variables: marketing,

location, and in some instances, height, the area it is in. Where we could find towers in communities such as--well, inside towns, where we could use their water towers like we have. But again, in some of those situations you need to look at how your traffic is going, and many times that isn't the same kind of traffic you see with location of water towers and other towers that are out there.

MR. PETERSON: These were built to receive, you know, to work State-wide. You know, these are all individual systems. The Forest Service has their system, the Game Commission has their system. And they all talk to each other, so they are all in rural communities. I mean, I have one within a half a mile of my house.

MR. HAMMOND; And I would add, in some of our situations, at least in our county, it seems like all the towers when they first went up were in the same area, and they would be with the sheriff's offices and everybody else. Since then, and I would assume that is your experience, we start filling in gaps in areas that really don't have towers. Because we are in Iowa and Minnesota, we are spending a lot of time putting towers along the Iowa-Minnesota border. Just because of the nature of the two

jurisdictions, you don't have anything that would be available, that would fit in that situation.

MR. PETERSON: But I am told it covers 95 percent of the State's population. That is reachable by those towers. Now, doesn't that really take a lot of your cost away, if you can just rent a piece of a tower, be on a tower? Isn't that a huge part of the cost?

MR. HAMMOND: Well, I think the answer is yes, but coordinating the signals and making sure that they have handoff and coverage has become a major issue. When we built southern Minnesota, all of our towers were 400 feet. It seemed if we had anything less than 400 feet, it was an exception.

Now all those towers are coming down in the range of 100 to 200 feet, and it is being done because you have the handoff and you have the heavy usage around interstates. So the interstate situation is, you put them at a certain distance.

I don't know whether you go back to the taller towers maybe in the situation you are talking about. We are finding ourselves hopping from one step to the other and providing coverage in that sense. Maybe it would work, but

generally speaking, again, we have moved into areas where you don't have as many towers. That is part of being rural, and that is part of having some of the larger amounts of traffic.

But to get coverage, we have gone from analog to digital. It isn't always as effective with the old towers where they are at, and so we have to address those problems.

MR. JENSEN: I am certainly not a wireless engineer. We were in the wireless business and are no more. But I think you are talking an investment question here, as you pointed out. And listening to the numbers that were quoted earlier in the discussion here, we have an engineering study.

We at Great Plains feel like cellular or wireless is a complementary service to our wireline. It is not a replacement. Neither one is a replacement for the other.

But if you look at where the preponderance of the wireless coverage is, if I showed you where three highways are in Nebraska--Interstate 80, Highway 275 to Norfolk, and 81 south of York--that is where the preponderance of the wireless coverage is today. And why? Because there are

people there. If you get a little further off the beaten path, then you have more of a problem.

And we have got an engineering study that the numbers are 180 degrees from what you heard earlier in the day, so it is very difficult to take averages and make them meaningful, especially out in rural. Nebraska is 400 miles long, and often it is 50 degrees on the eastern end and 100 degrees on the western end, for an average of 75 degrees, and neither one of them is there.

[Laughter.]

MR. JENSEN: So you have to be very careful of averages, but I think you are talking, number one, frequency coordination and handoffs.

MR. PETERSON: I want to thank you all very much.

MR. STUPAK: I thank you gentlemen for staying with us today. We are later than we thought we would be, but it was an interesting hearing, and we thank you all for doing it. On behalf of the Congressional Rural Caucus, thank you for coming and sharing with us.

[Whereupon, at 4:43 p.m., the hearing was concluded.]